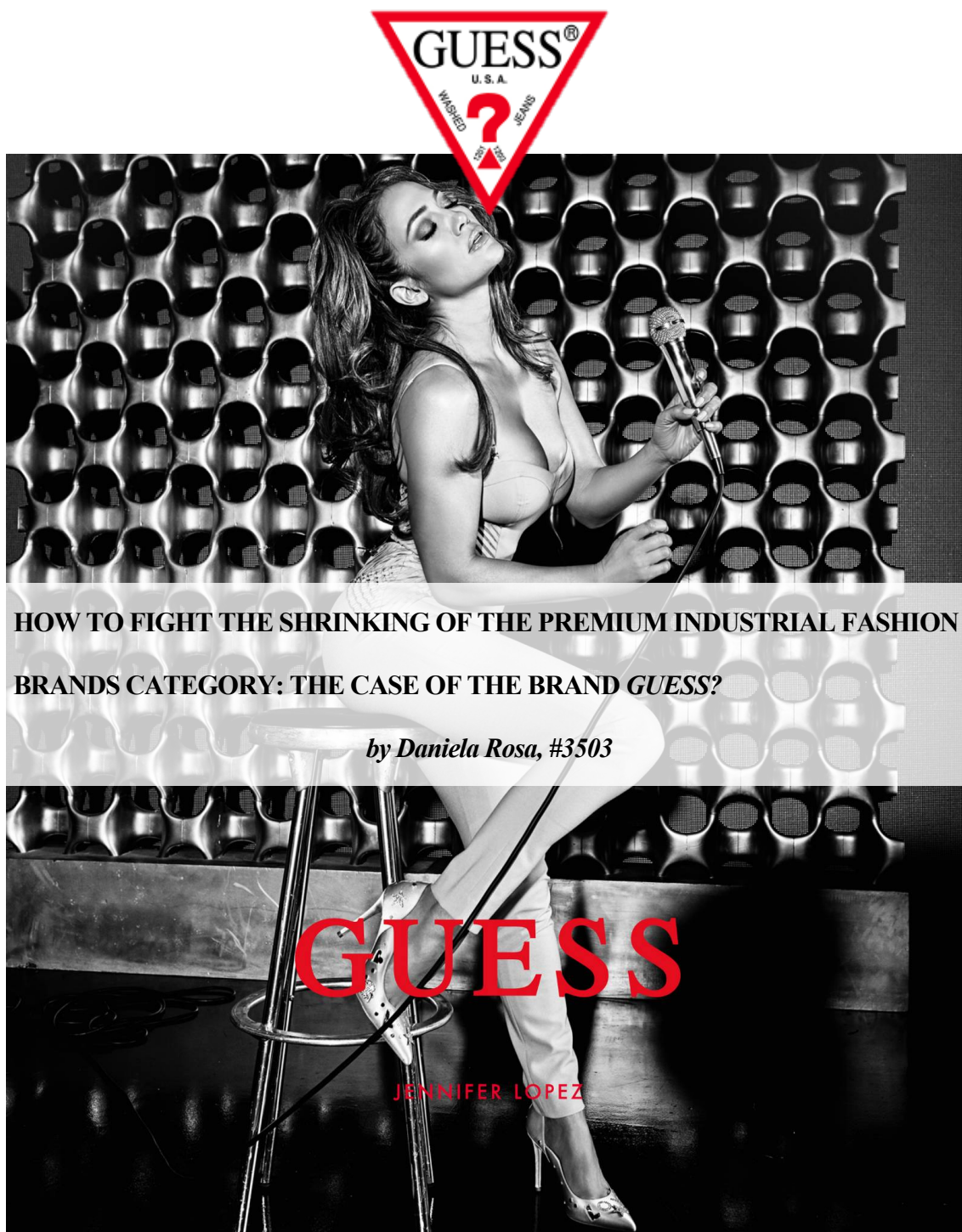


**A Work Project, presented as part of the requirements for the Award of a Master Degree in
Management from the NOVA – School of Business and Economics.**



**HOW TO FIGHT THE SHRINKING OF THE PREMIUM INDUSTRIAL FASHION
BRANDS CATEGORY: THE CASE OF THE BRAND *GUESS*?**

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A Project carried out on the Master in Management Program, under the supervision of:
Professor Luís Rodrigues

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**How to Fight the Shrinking of the Premium Industrial Fashion Brands Category:
The Case of the Brand *GUESS?***

The Abstract Page (p. 2) must contain the project's title and a single paragraph summarizing the main aspects of the project in less than 100 words. After the abstract a list of up to four keywords should be included. Main text follows the keywords

Title: *How to Fight the Shrinking of the Premium Industrial Fashion Brands category: The case of the brand GUESS?*

Author: Daniela Rosa

Abstract: Premium Industrial Brands, very successful in the past, have recently started to suffer with consumer empowerment and with upper and lower fashion segments increasing the attraction of their business models, in a tendency called the shrinking of the middle market. This work project attempts to understand how a brand can survive this tendency by focusing on the case of GUESS?. With the structure of a case study and built from a thorough analysis of both the company and the market, it analyses the history, challenges and opportunities the brand faces and questions GUESS?'s new strategy, providing students with the tools to strategize towards middle market brands' survival.

Keywords: GUESS?, Premium Industrial Brands, Shrinking of the Middle Market, Brand Identity

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INTRODUCTION

This master thesis is based on the studies of Fashion Marketing and Brand Management. It focuses on a new tendency that is having a big impact in the fashion industry called the shrinking of the middle market. The rise of fast fashion brands, offering increasingly fashionable products, and designer brands, offering more entry-level products and improving service, have diminished the space available for brands in the middle. As a result, many premium industrial brands are seeing its profits decline and if they wish to remain relevant, they need to adapt their strategy and either develop a strong identity, focus on a specific heritage and know how, or explore specific local perceptions.

The decision to focus on this topic was based on the time spectrum (it is a recent and ongoing change) and on its relevance as a major provider of disruption for the structure of the fashion industry. Therefore, it is an important study for anyone wishing to work in this industry.

In order to develop a practical analysis, I decided to write a case study on a specific brand: an American jeans company called GUESS?. This choice was due to the availability of information, the familiarity with the brand and also because of its high profile. GUESS? has been an extremely successful brand since its birth in the eighties and today remains as one of the market leaders; however, the structural changes of the fashion industry as well as the consumer empowerment had a strong impact on the brand, forcing it to redesign its strategy for the future. In the next pages, you will find a library case study on GUESS?, following the structure of Harvard Business Review and a Teaching Notes section with an analysis of the case. This thesis will provide its reader with a deep understanding of the current situation of the Fashion Industry as well as give him/her the tools to critically develop a brand's strategy.

“Keeping the dream alive is the key success factor. The difference between brands that are successful for generations and all the others lies in their approach to the future. Brands that are lazy are happy with the existing product, while great brands are never happy with the here and now and constantly seek new improvements in order to satisfy a changing and increasingly sophisticated consumer base. These brands are dreamers and creators of the future with a solid grounding in their past.” (Corbellini & Saviolo, 2012)

CASE STUDY NARRATIVE

2015 marked a big turnaround for GUESS?. For the first time, someone outside the Marciano family would become CEO of the brand. Victor Herrero was brought in a final hope of turning things around for the premium industrial brand, which, in recent years, had begun to struggle.

The GUESS? brand had encountered success soon after its launch in the eighties. Its long history is novel-like, with highly publicized controversies, divisions between the family and edgy advertising campaigns. Today, the brand includes numerous products in the apparel, accessories, beauty and footwear segments, divided among four brands: GUESS?, GUESS by MARCIANO, GUESS Kids and G by GUESS. However, the fashion industry was no longer the same than it was when the Marcianos first created GUESS?. The role of the consumer has completely changed and brands now have to please the consumers if they wish to stay in the game. The business model of the premium industrial brands, very successful up until the 20th century, was now particularly dangerous due to the shrinking of the middle market.

The strategy of GUESS?'s new CEO includes a series of measures that aim to make the brand more engaging to Millennials and Generation Z. Will the brand survive and continue to be one of America's most successful brands?

CONSIDERATIONS ON FASHION

Corbellini and Saviolo (2012) define fashion as “(...) the direct result of both a creative and an industrial process. It is a system of innovation engineered to meet and encourage seasonal consumer demand, fulfilling a cultural requirement to define ever-shifting social identities and relationships.” Fashion is characterized by seasonality and ephemerality and offers tangible and intangible benefits to consumers. The functional benefits lie within the product, while it is through communication that the dream factor and symbolic meaning that makes consumers connect emotionally with a brand are spread (Corbellini and Saviolo, 2012) (*See detailed explanation of the concept of Fashion in APPENDIX 2*). Lifestyle brands, like GUESS?, tend to offer social benefits (allowing someone to feel as part of a tribe) (Aakars, 2009) and represent an individual or a group, in the way of living and in the way he/she/they wish to be perceived by other people (Saviolo and Marazza, 2013).

“If it were ranked alongside individual countries’ GDP, the global fashion industry would represent the 7th largest in the world” (BOF X McKinsey 2016) Its value was estimated to be €1.6 trillion by Euromonitor in 2014 and €2.3 trillion by BOF X McKinsey in 2016. In between 2006 and 2016, the market grew approximately 5.5% per year. However, in 2016, this growth slowed down, reaching a value in between 2 and 3%. The future is uncertain, with the forecast for 2017 being a growth rate of 2.5% to 3.5%, numbers that do not include uncertainty in China and USA. This uncertainty (associated with political shifts – such as the Brexit and terrorism, among others) is particularly bad for this industry since “Fashion purchases are often emotional ones, and if customers are feeling uncertain or scared, they are less likely to buy.” (McKinsey X BOF, 2016) Still, for 2018, despite continuing uncertainty, researchers report optimism and sales growth, nearly tripling between 2016 and 2018, from 1.5% (2016) to 3.5% (2017) and 4.5% (2018). 2018 will be the first year in which more than 50% of sales from the apparel and footwear categories will come from outside Europe and North America. In these markets, growth is expected to be around 5-7.5%, while in Europe it will stabilize at 2-3% and, in North America, it is expected a growth rate of only 1-2% (McKinsey X BOF, 2017) (*See detailed statistics in APPENDIX 3*). The “Fashion Pyramid” hierarchizes the multiple fashion segments. “Moving from the ready to wear segment to the mass market, the importance of elements such as stylistic creativity, product innovation and the “dream factor” decreases in favour of aspects such as the price, volumes, efficiency of the supply chain.” (Corbellini and Saviolo, 2012). This hierarchy comprises two main segments: Couture and Ready-to-Wear / Prêt-à-Porter. Ready-to-Wear has no focus on craftsmanship and production is cheaper. It “(...) is essentially “fashion” clothing – i.e. a seasonal product strongly related to its time. Luxury goods, instead, are timeless items (...) very exclusive and unique.” (Corbellini and Saviolo, 2012) (*See a detailed explanation of the difference between Luxury, Fashion and Premium in APPENDIX 4*). Haute Couture is where Fashion and Luxury meet: its purpose is to create the dream and the inspiration for the brand through works of art. Recently, couture is losing its prominence¹ and a new segment called Demi-Couture has emerged. Afterwards come the Designer Collections (the first segment of Ready-to-Wear), highly

¹ This issue can be explained by the decline in skilled couturiers, a change in business models and instant gratification (Corbellini and Saviolo, 2012).

creative content-wise, born from partnerships between brands and companies manufacturing their products. Secondly, come the Diffusion lines, second and third lines of a brand, more affordable and usually aimed at a younger audience. Afterwards, in the exact middle market, there are the Premium Industrial Brands (or Bridge brands). They used to be a very powerful business model, strong brands with iconic² and timeless pieces. Fourthly, there is Mass Fashion, a very heterogeneous segment driven by volume and retail traffic. The final category is Value and Discount, with the primary driver of price (*See illustrative segmentation models in APPENDIX 5*). It is important to note that the position of the brands in the pyramid is not static, depending on each country. For example, Zara is considered as Mass Fashion in France, but as a Premium Industrial Brand in Australia (da Silveira, 2016). These multiple segments can be occupied by brands with different business models, with the main four being mass market, premium, fashion designers and luxury. The business model describes the customers, product offer, infrastructure (such as the responsiveness of the supply chain) and revenue model for a said brand. They are not static, and fashion segments usually learn from one another (Corbellini and Saviolo, 2012).

THE MARCIANO BROTHERS' AMERICAN DREAM

The Marciano brothers were no strangers to the retail business. In an early age, still in their home country France, they owned retail stores under the name MGA. At the time, their top seller were unisex jeans. However, this was soon not enough: they wanted to go to America. So, they packed their bags and left 12 stores behind plus unpaid tax bills, arriving to Los Angeles in 1977 with an innovative idea: stonewashed jeans inspired by their European roots (FORBES, 2015). For the Marciano brothers, *GUESS?* was indeed the American Dream. They opened their first boutique store in Beverly Hills in 1981, where they presented their European inspired styled jeans, with the classic red triangle patch logo, stonewashed denim and signature zipped ankles. Their first star product was called “Marylin” and it was a stonewashed, slim-fitting 3-zip jeans (FORBES, 2015). Their success story started when the department store Bloomingdales took in 30 of their jeans, which disappeared from the shelves in hours despite their high

² “[Iconic pieces] are usually historical products which won fame for the brand name, and which became codes themselves” (Corbellini and Saviolo, 2012)

price for the time: \$60. In their first year in business, sales at their Beverly Hill's store and Bloomingdales reached \$6 million (FORBES, 2015).

To continue their success story, the Marcianos decided to expand. But to do so, they needed money. According to Forbes (2015), they sold a 50% stake in GUESS? for \$4.7 million to the owners of Jordache, a jeans brand, which was already established in Hong Kong. The partnership soon caused trouble that led to a legal battle. The settlement happened in 1990, with the Marciano brothers emerging as the only proprietaries of GUESS? (FORBES, 2015).

THRIVING FOR EXCLUSIVITY

Ran at first by Georges and Maurice, followed closely by Armand and Paul, GUESS? was above all and since its birth, a family company. Georges was responsible for the design, Maurice for product development, Armand was in charge of distribution and Paul ran advertising, completely in-house. Georges was the brother responsible for creating GUESS?'s signature look: "stonewashed denim, lighter in colour, softer and more form-fitting than competitors" (FORBES, 2015).

In the nineties, their sunny days were interrupted by the first family quarrel: the distribution strategy. According to Forbes (2015), while Georges preferred to aim at lower-tier stores, such as J.C. Penney, the other brothers preferred a more upscale distribution. In 1993, Georges gave in and ended up selling his shares to his brothers for \$214.2 million. In order to complete this purchase, the family had to borrow \$210 million, and three years later, \$105 million were still outstanding, leading to the decision of taking the company public (FORBES, 2015).

The three brothers were serious about making the brand more exclusive and upscale. They ended contracts with wholesalers they felt were not on the same level as the brand, continuing to sell through others like Bloomingdale's and Dillard. Their wholesale business, which converted to 67% of all revenues, shrunk to only 56% the two years after (FORBES, 2015). GUESS? invested in its own branded stores, in America and Europe, and this strategy seemed to have paid off, with sales rising by 40% in the four years that followed the IPO (FORBES, 2015). The Marcianos continued their struggle to reach the top by creating more store formats: a store dedicated to accessories, stores of G by GUESS (a lower line) and stores for

the upscale GUESS by MARCIANO line, which were much smaller, boutique style, and pricier (FORBES, 2015). To try and get to the Asian market, they decided to sign licensing deals (FORBES, 2015). In order to tackle the brand's corporate social responsibility, in 1994, they had opened the GUESS Foundation, with the mission of "improving public education, assisting the homeless, and preserving and protecting the environment. The GUESS? Foundation also supports disaster relief, as well as cancer and AIDS research and treatment, among others." (TMRU, 2005)

According to FORBES (2015), in 2000, the Marcianos brought the first outsider to GUESS?: Carlos Alberini whom, according to one former GUESS? executive, was "the secret to their success". In that decade, stores grew from 427 to 1373 and sales went up to \$2.5 billion.

THE POWERFUL IDENTITY OF GUESS?

The brand soon started advertising, using sex as their as their reason to believe. In Paul's words, the campaigns should have the "carefree, adventurous, sexy spirit for which GUESS? is famous" (Apparel Magazine, 2006) "The company's philosophy has always been to create an identifiable, strong image for the GUESS? brand. With a strong image comes strong customer loyalty. GUESS? created a uniquely young, sexy image in the 1980s and has stayed true to this identity over the years. For over 20 years GUESS? has stood for everything that is sexy about fashion." Paul Marciano stated in an interview (Apparel Magazine, 2006) And actually, GUESS? owed much of its success to their iconic and innovative image, inspired by Europe, California, Hollywood icons and pin-up girls. In 1985, the brand introduced their iconic black-and-white ads, "described by Forbes as "catering to teenage cravings for sex, power, attention and self-love . . . electric not only with sexuality but with an implicit brutality and exhibitionism as well." (Encyclopedia, 2006) Paul was very clever in the choice of models, trying to find a face that fitted the brand's personality ("fun, outgoing and extremely sexy, of course" (Apparel Magazine, 2006)) and he often chose unknown models. He was responsible for launching the career of names like Claudia Schiffer, Naomi Campbell and Kate Upton. In the 80s, GUESS? was with no doubt the most popular brand of jeans (FORBES, 2015) "The campaigns and the models in them create the fantasy around the

brand. (...) Without that, we could not have gone into all the categories we did. It really has been the foundation from where the house of Guess was built.” (WWD, 2012)

Additional communication channels for the brand include social media, celebrity and influencer endorsements, books, fashion shows, the GUESS? Journal, museum exhibits, and others. Like all premium industrial brands, GUESS? followed a premium strategy in price and distribution and communication mimicked those of Designer collections brands (Corbellini and Saviolo, 2012).

GUESS?’s Brand Identity, defined by Kapferer as “the common element sending a single message amid the wide variety of its products, actions and communications” that represents “brand uniqueness and singularity throughout the word and whatever the product.” (Kapferer, 2012) is undoubtedly well defined. In the Physical facet, there are the Triangle patched logo, the Denim and its Iconic wash, the Curves of the GUESS? models and Sex. The Personality of GUESS? is a provocative, sensual and adventurous woman. The Culture facet revolves around passion, freedom, edginess as well as in social responsibility. The Relationship focuses on a quality product (fits and washes), a fashionable product and confidence. The Customer Reflection is young, sexy and feminine. The Self-Image is “I feel strong and incredibly sexy and chic” and “I am smart and confident, witty and sophisticated” (Apparel Magazine, 2006)

OPERATIONS AND GEOGRAPHIC DISTRIBUTION

GUESS? follows an umbrella brand strategy and has three brands under its name: GUESS Kids, G by GUESS and GUESS by MARCIANO. They have multiple retail formats around the world and their brands are sold according to locations of the retail stores and wholesalers. Its product lines include “leading lifestyle collections³ of contemporary apparel and accessories for men, women and children that reflect the American lifestyle and European fashion sensibilities” targeting a “style conscious consumer between the ages of 20 and 35” (GUESS?, 2017). Their business is divided in five segments: Europe, Americas Retail, Asia, Americas Wholesale and Licensing. The Licensing segment includes worldwide licensing operations, with 15 domestic and international licenses. Overall, including retail and concessions, GUESS? has 1680 stores: 945 retail stores in America, Europe and Asia plus 735 retail stores from the

³ Most premium industrial brands started by specializing in one product category [their iconic pieces], and eventually evolved to an expansion in product categories towards a “*lifestyle offering*”. (Corbellini and Saviolo, 2012)

company's licensees and distributors in 100 countries all over the world (Reuters, 2017). GUESS?' wholesalers include Macy's (its biggest customer), specialty shops and upscale boutiques all over the world. Its retail website is operational in 55 countries in the US, Canada, Mexico, Europe, South Korea and China, in nine languages (Reuters, 2017).

THE COMPETITIVE LANDSCAPE IN THE JEANS INDUSTRY

The competitive landscape in the jeans market is extremely wide. Almost every fashion brand offers jeans, meaning that there are many non-specialized competitors on the benefit level (Keller, 2009). The primary competitors will be considered as the ones that are specialized in jeans, in both the premium and super-premium categories. Super premium competitors include Diesel, Calvin Klein Jeans, Ralph Lauren, Abercrombie and Fitch, 7 for All Mankind, Tommy Hilfiger and True Religion, while premium brands include Levi's, Salsa, Wrangler, Lee and Pepe Jeans London (multiple sources).

Blue jeans first became a "thing" when Levi's created the Design 501. It was almost only 40 years after that the new jeans specialized brands, Wrangler and Lee, appeared. A few decades later, in the early sixties and seventies, jeans had become a huge trend (Fashion United, 2016). When Guess arrived to the market, the jeans trend had already started to go into decline; however, their offer was slightly different. It was called "designer jeans and claimed to have a superior quality wash and fit The brand quickly achieved success, despite contrary expectations (Funding Universe, 2005).. In the eighties, GUESS?' success saw its first decline with the rise of other super premium competitor brands, such as Calvin Klein, Diesel and Tommy Hilfiger and recently, mass fashion companies like Gap and Inditex became major competitors as well (multiple sources). Up until today, these brands remain very successful and fierce competition, especially due to the current state of the industry. Still, although data is inconclusive, GUESS? continues to be one of the most sold (LinkedIn, 2016).

THE SHRINKING OF THE MIDDLE MARKET

The Premium Industrial Brands segment appeared in the American market, in the department stores, as a "bridge between the mass market and the first and second lines of European designers" (Corbellini and Saviolo, 2012). According to the authors, these brands are not very extreme when it comes to fashion

because their time to market is long (12-18 months). They are successful if they are able to get their products to market at the right time, with the right style and so their competitive advantage lies on their marketing mix, mainly on the product side. The value proposition is the brand image, its price/quality ratio and service to retailers and consumers. These brands are usually not integrated in production and retail, but manage closely their external suppliers and distribution channels to have a strict control over the brand image and tend to have their direct retailers and wholesale clients (Corbellini and Saviolo, 2012). What feeds the brand is not the inspiration and vision of the designer, but “industrial and distributive realities and the vision of an entrepreneur” (Corbellini and Saviolo, 2012).

Although “In the UK, luxury segment is booming at double-digit growth rates and the mass fashion segment is growing at around 8%.” (McKinsey, 2014), the story is completely different for premium industrial brands. “Squeezed in the middle, between the attack of the mass retailers (which are upgrading creativity and image) and the higher segment (which is upgrading service and trading down with more entry-priced products), companies in this segment are trying to reposition themselves in the diffusion range by achieving the strong brand identity needed to become a global brand. In addition, these competitors are innovating their business models in the direction of service (to retail and to the consumer)” (Corbellini and Saviolo, 2012). At the same time, “The ongoing polarisation of the industry with consumers trading up or down from mid-market price points continues to create headwinds for mid-priced fashion players while those operating in the luxury, value and discount segments further pick up speed.” (McKinsey X BOF, 2017) (*See an illustrative model of the shrinking of the middle market in APPENDIX*

6) Purchasing habits are changing due to recent trends in the fashion industry, such as an increasing sensitivity to price and instant gratification: the growth of the fast fashion segment and the rise of social media has accustomed consumers to a growing speed in availability of trendy products, and leading fashion players are adapting to it by accelerating time from design to shelf and focusing more on consumer analytics and insights to increase responsiveness (McKinsey X BOF, 2017). However, flexibility and speed are big challenges and require major modifications in the business model and supply chain to make them more consumer-centric. Companies not doing this may face a fashion risk and excess inventory if

not meeting consumer's desires (McKinsey X BOF, 2017), which is one of the problems making premium industrial brands so vulnerable. The other is related to a small potential of growth (da Silveira, 2016). Brands on this segment usually rely on a very loyal consumer base, but "With information and the ease of comparison at their fingertips consumers are becoming less brand loyal: among millennials, two-thirds say they are willing to switch brands for a discount of 30 percent or more." (McKinsey X BOF, 2017). Furthermore, to survive, Premium Industrial Brands have to rely on a strong identity, on a specific know-how or on exploring local perceptions to convince existing consumers to keep on buying and to attract a new consumer base (da Silveira, 2016). One of this factors has to convince the consumers well enough to make them spend a price premium and making consumers see it is "value for money". Brands need to emphasize emotional and functional benefits through communication of their USP's to differentiate themselves from competitors and resonate with consumers (McKinsey, 2016). At the same time, they should "avoid getting 'stuck in the middle'" As consumers either trade up or trade down, companies whose portfolios consist primarily of mid-tier products might have little to offer. Such companies could consider stretching their brands upward, downward, or in both directions—developing a premium offering to attract up-traders, or a compelling low-priced offering aimed at down-traders and mass consumers." (McKinsey, 2016)

The shrinking of the middle market can be seen all around the world, with the biggest exception being France, the only country that still has a large middle market in Europe⁴ (da Silveira, 2016). At the same time, in the USA, there has been a "retail apocalypse" caused by the rise in ecommerce and decrease of foot traffic in malls that has led to multiple store closures (Forbes, 2017) and even bankruptcy of some brands, like American Apparel. People's spending habits are changing from "owning luxury" to "experiencing luxury" (da Silveira, 2016) and the retail industry needs to adapt in order to remain relevant and provide as well a distinctive experience (BOF, 2017).

THE FALL OF GUESS? AND THE HOPE ON THE HORIZON

⁴ Australia, for example, also has a large middle market, composed by Australian brands and others like Zara and Mango already made the cut (da Silveira, 2016).

Maurice was the first to leave GUESS? in 2007, departing from his co-CEO position to build a winery called Marciano Estate. Three years after, the outside man Alberini left to run Restoration Hardware. With him leaving, GUESS?' stock dropped by 40% while stocks for the general market doubled. Two years later, in 2012, when Maurice retired completely, the stock dropped 30%, while the market's went up 60% (FORBES, 2015).

From 2009 to 2012, the proportion of GUESS?' revenues coming from the North American retail segment, its biggest source of revenue, decreased from 46% to 42%, in spite of its expansion (FORBES, 2014). In the period between 2013 and 2015, comparable store sales declined by 4.9% in 2014 and 3.7% in 2013 (FORBES, 2015). This was caused by a number of factors, like a decrease in the number of tourists, a lack of fashion trends, a bad performance from the accessories line and GUESS? pricing strategy of increasing full-priced sales and reducing markdowns (FORBES, 2015). "Over the past few quarters, the company hasn't done well in any of its main markets and this trend is likely to continue in the [Q4 FY 2014] as well." (FORBES, 2014) Net profits went down by 40% and the most profitable segment was the licensing division: only 4.6% in sales, but 80% of profits (FORBES, 2015) "In the U.S., a huge decline in foot traffic, weak consumer sentiment and fierce competition from fast-fashion brands will weigh on GUESS?'s results. However, the retailer's competitively priced products [new denim offerings inspired by their iconic styles, available at entry-level prices (\$75-\$95)] can slightly offset this impact.", since they were very successful and became one of the most popular merchandise due to their pricing strategy (FORBES, 2015). At the same time, in Europe, revenues were consistently going down due to a sluggish economic environment and economic crisis, and, in Asia, the news were also not good due to weak consumer spending and especially bad results from China (FORBES, 2015). Up to 2015, before the appointment of Herrero, GUESS?' revenues were \$1.55B (10% year-on-year decline) and net earnings were around \$34M (16% year-on-year decline) (FORBES, 2015).

However, GUESS? was not the only brand struggling to keep its revenues going, particularly in the denim industry. Athleisure had stolen its stop, with brands like Lululemon becoming increasingly successful (BOF, 2017). After three years of decline, in 2016, the denim category grew 4%, the best performance in

years (NPD Group, 2016). “It began at Paris Fashion Week two years ago, when Vetements sent its Autumn/Winter 2015 collection down the catwalk, full of its instantly familiar oversized silhouettes (...) and *those* re-worked vintage Levi’s, now the brand’s signature jean (...) the moment when denim, which was on the outs for so many years, really became “cool” again.” (BOF, 2017). Euromonitor predicts that the size of the jeans market, globally, could grow to \$143 billion in 2019, from \$102B in 2014, with the biggest sources of growth coming from developing markets. This value is still only 1/3 of the global sportswear market (Reuters, 2015). According to BOF (2017), high fashion brands such as Vetements, Calvin Klein and Balenciaga were the ones driving the denim revival, by responding to millennials’ needs such as customization and “a move away from the typical five pocket.”, starting a new trend for vintage and rigid denim. However, athleisure will have its long lasting effects on the category since “consumer desire for comfort has given birth to the rise of performance denim, another innovation that has become a growth driver for the denim sector.” (BOF, 2017). There are many possibilities in different technical fabrics created to perfectly respond to consumer’s needs, creating a big opportunity for growth that brands like Levi’s and Wrangler are already taking advantage of (BOF, 2017).

THE NEW STRATEGY

When he arrived at *GUESS?* in 2015, Victor Herrero’s goal was to make the brand come back to the huge success it once was. He was responsible for constructing a \$4 billion business for Inditex in Asia and for many disruptions in the fast fashion segment. In order to revive *GUESS?*, he believed it was crucial to show how the brand was different from its competitors by improving its brand image, making changes in sales and merchandising, digital marketing, store maintenance and stock management (FORBES, 2015). As a first step, Herrero borrowed a move from luxury strategies, by making sure that the sales force knew everything there is to know about *GUESS?*’ products, at the same time being able to recognize the needs of their consumers to align them with the product offer. In doing this, *GUESS?* would start to have a pull or demand based supply strategy, in order to better compete with fast fashion brands. Another goal was to advertise the “fresher” and authentic brand image aggressively on digital media and target a younger consumer base than before, the Generation Z, and continue to connect with Millennials (Trefis, 2017)

(Millenials are considered people born in between 1980 and 1994 and Generation Z are those born in between 1995 and 2012). The new image should also be advertised through their points of sale, with a previous categorization of all stores regarding to their performance. Strategic wise, the plans should be made further ahead and with an eye on the future and a more rigorous review of the stocks movement will be performed, at a contrast with strategy from previous years: "You could work with senior leadership, establish your three to five-year plan, and if accessories had two great weeks in a row, half of the store was converting to accessories (...) It's never about the longer-term vision. It's never, 'How are we going to grow this?' That's not them." the former vice president said to FORBES (2015). Finally, GUESS? would create a yearly retail calendar to draw consumers to important occasions (FORBES, 2015).

Additionally, its main focus will include "A better product pricing strategy, [periodically reviewed (Trefis, 2017)], focus on the Asian business [increasing its contribution in total revenues from current 10% to 25% (Trefis, 2017)], and the transition towards a flatter hierarchy in GUESS?'s corporate environment. In the second phase of its development, GUESS? will focus on streamlining costs and enhancing the wholesale business." (FORBES, 2015) Up to the third trimester of 2015, some changes had already been made and stock price declined only 4.5%, much better than in the previous year (FORBES, 2015).

According to Digital Commerce (2017), GUESS? was also aiming to improve its e-commerce: in the Americas segment, while store revenues declined, e-commerce's were rising. Hence, GUESS? will launch a "digital first" strategy in the USA (which is "a little bit softer on sales" compared to Europe and Asia segments), focusing on social media, CRM, loyalty programs and email marketing, as well as on "delivering best-in-class digital and in-store experiences" to innovate user experience, mentioning as well mobile initiatives and omnichannel efforts (Digital Commerce, 2017), following the lead of many fashion brands (*See the priority areas for 2018 in the fashion industry in APENDIX 7*). In America, GUESS? will as well try to form cheaper sourcing networks, producing in low cost regions and dealing with high quality suppliers (Trefis, 2017). Additionally, GUESS? has started to negotiate rents and close underperforming stores, and is, at the same time, opening new stores in emerging markets. In 2017, 165 stores were opened worldwide – and 124 were closed (Vault, 2017). Throughout 2018, they are expecting to close at least

more 60 stores in USA and Canada (Vault, 2017) while opening around 60 stores in Europe, particularly in the yet untapped Eastern European markets and other 35 stores in Asia, mostly in China (Trefis, 2017). Hence, the company's focus will be to become stronger in America and to grow in Europe⁵ and Asia. The second will be a crucial region for GUESS's success, with Herrero hiring two of his Inditex colleagues to help the business grow, doubling capital for the region and strengthening its online presence (FORBES, 2015).

THE NEW COMMUNICATION

In an effort to reconnect with the Millennials and Generation Z, in 2016, GUESS introduced the GUESS Originals line with a 90's inspired collaboration with A\$AP Rocky, resulting in four successful capsule collections. (Hypebeast, 2017). It collaborated as well with Joe Jonas in an underwear campaign (GQ, 2017), as well as with Ariana Grande, in launching an Athleisure collection (Teen Vogue, 2016). In 2017, the company named the singer Camila Cabello as the face of the brand. "Camila's confidence, strength and beauty reflect the qualities I look for in a GUESS Girl (...) Choosing Camila to be the face of GUESS this fall celebrates that GUESS Girls are multi-talented, dynamic and accomplished women." (Billboard, 2017) For 2018, GUESS chose Jennifer Lopez, who is, at 48, the oldest face of GUESS yet. "Jennifer Lopez is a GUESS Girl's dream! She is an accomplished artist, she is iconic, and sensual (...) Jennifer's impact and influence continues to grow and this campaign celebrates the notion that women get more beautiful and talented as they gain life experience. Her beauty and class shine through this campaign and I am so excited Jennifer accepted to be our new GUESS Girl and at the same time 'Femme Fatale' of Marciano." (US Magazine, 2017)

These strategic moves imply a slight change in focus for the Identity of the Brand. While the Physical, Culture and Relationship facets remain the same, the Personality of GUESS now includes notions of a "strong" and "accomplished" woman, with the customer seeing himself as more "hip" and "successful" person (Customer Reflection). The consumer might feel as well as capable of great things (Self-Image). "In a few words, the essence and style of Guess today is simply California, smart, sexy, and what is right

⁵ Although revenues are growing in Europe, it is necessary to remember the economic crisis that is still ongoing in many European countries like Spain, Italy and Greece (Trefis 2017).

in your own eyes. ... It doesn't have to follow any trend or 'must-have' as long as it's what you feel good about [wearing]." (Los Angeles Times, 2017) However, the newness of these changes harms the amount of information available regarding consumers' opinions. On Instagram, engagement grew exponentially: on 2016, likes on pictures were around 10.000 per picture, while on the end of 2017, they amounted to around 40.000. Choosing Camila Cabello proved to be a very successful move: most comments from consumers are extremely positive, but the same does not happen with Jennifer Lopez, with a lot of followers criticizing the choice of a person who wears real fur to represent a brand that does not use real fur in its products ("Not sure why you would elect her to represent your brand, especially when you've been making efforts to provide more cruelty-free clothing options as of late. She is huge supporter of fur, and this is extremely disappointing" (GUESS?'s official instagram account). A follower also said "Love her and her music. But I think someone young should represent Guess" (GUESS?'s official instagram account). Consumers are also not happy about the use of Photoshop and a consumer even says "Why not use real customers in your ads? So many of us buy the product because we love it. Why not showcase us... The regular consumer? We can and do look just as good in the clothes as any model/actress. (...)"(GUESS?'s official instagram account). Followers also love the Originals line "Classics as always are better" (GUESS?'s official instagram account) but oddly, engagement with pictures of A\$AP Rocky were not good in comparison with pictures from both before and after – a consumer called the campaign neither "believable nor stylish". A follower also said "Thank goodness the change at GUESS is finally kicking in #vivavictor" (GUESS?'s official instagram account). Additionally, some of the overtly sexualized pictures are also not engaging consumers as much – "Picture would be more beautiful if you would button up your shirt! No one should see the need to show so much skin" (GUESS?'s official instagram account). On Facebook, engagement is not as great but consumers tend to have better reactions to known faces like Camila's or Jennifer's. Most comments are complaints both regarding service and quality of GUESS?'s products. GUESS?'s Active Wear campaign was the most engaging recently. Again, A\$AP Rocky's campaign has a very low engagement in comparison to all other posts. As Instagram, engagement with Facebook grew immensely after Victor Herrero – but only a few posts of

2014 and 2013 remain to be seen. YouTube tells a different story: this social media has had a consistent following since the account was first created eight years ago. The most engaging videos are campaigns and “Behind the scenes”, and Camila Cabello was, once again, a huge success: all her videos had more views than any other, reaching almost 650.000. Guess Originals were also a huge hit. Engagement on Twitter is considerably lower, but posts featuring Camilla and Jennifer are more engaging.

However, an analysis of social media proves the tone of communication has hardly changed. Today, *GUESS?*’ identity strongly focused on sexuality might be a problem. Although the 90’s and 00’s were a decade filled with overtly sexualized ads, this tendency seems to be reversing. Sex does sell, but it might not be the best approach to deal with the younger consumers (The Fashion Law, 2015). “[Millennials] do sex in a much more casual way. This generation doesn’t want to look like they’re trying at all; they want to look like they were just caught being sexy.” (The Fashion Law 2015 citing Yarrow, 2014) Today, it is much more about “authenticity and something that feels truer and less commercial and in-your-face.” (The Fashion Law 2015 citing WWD, 2015) This means that brands need to understand that there has to be a statement [social change, self-direction] and a meaning behind sex: a “sex – plus” (Business Insider, 2015) “[Millennials] also base more of their purchasing decisions on whether a company’s practices and mission align with their values. This is a generation that has higher expectations on what a company should be able to deliver: convenience, quality, values orientation, newness — and price” (McKinsey X BOF, 2017). A recent research on the impact of female-sexualized ads on male and female viewers found out that imagery that has a strong sexy content may evoke negative emotional responses from women, decreasing their interest and desire to buy. In men, even short-term exposure has a direct impact on sexism. This means that ads of this sort may lead to negative publicity, and although they can have more clicks, they have long lasting negative effects on “user satisfaction, brand perception and long-term advertising efficacy.” (Gennai, Bhatt, Crocker, Payne, and Goel, 2017).

Additionally, they should keep in mind that all generations have different behaviours. While Baby Boomers and Generation X are much more brand loyal and tend to be less price sensitive – which is a very good thing for a brand like *GUESS?* – Millennials and Generation Z have a stronger need of a

connection with the brand in terms of values and meaning, are not that loyal and love a good discount (Wordstream, 2017). Baby Boomers and Generation X have accompanied GUESS?'s success throughout the years and probably keep buying and will keep buying (unfortunately there is no company data regarding revenues by demographics), but Millennials and Generation Z need to start buying – and although a study by an ad agency, Moosylvania, puts GUESS? in 76th place as favourite Millennial brand in 2016 and in 99th place in 2017, GUESS? needs to be extremely cautious in its strategy for the future. Brands are easily forgotten by new generations if they start being meaningless – and meaning cannot be made up. “Consumers seek brands that are not only transparent, but authentic and honest...qualities they can relate to, admire and trust. (...) Millennials will seek out certain brands in order to project a desired image about themselves, their values, and goals to the "outside world".” (Moosylvania, 2015)

THE FUTURE IN FINANCIALS

Despite the changes in strategy imposed by Victor Herrero, GUESS? is still not on a perfect position financially speaking. In 2016 and 2017, revenues remained flat around the \$2.2 billion in each year (Vault, 2017). Although the digital strategy is succeeding (online sales grew from 3.2% in 2015 to 4.2% in 2016), total sales have seen a decrease of 8.9% in 2016 (Digital Commerce, 2016), with the top line growing by 2% in Q1 FY 2018 (while in Q1 FY 2017 it had suffered a decline of 6%) (Trefis, 2017). Additionally, while the revenues in Americas Retail, Americas Wholesale and Licensing have declined (5%, 6% and 13% each), the Europe and Asia segments counterbalanced the scale, with the first growing 9% and the last 4%⁶. In Q4 FY 2017, revenues grew by 11% in Europe and 27% in Asia (Finance Yahoo, 2017).

Despite its currently declining revenues, in 2019, GUESS? is expecting to grow \$800 million in sales (Digital Commerce, 2017) and achieving a 7.5% overall long term operating margin (Trefis, 2017). E-commerce will be extremely important in achieving this objective, and GUESS? will be working with marketplaces like “Tmall, JD and vip.com in China, La Redoute and Otto in Europe, and Amazon in the U.S. and Canada” (Trefis, 2017). While Herrero estimates \$300 million in this three-year plan will come from the Americas segment, coming from a “particular focus on e-commerce, factory stores and G by

⁶ Driven by new store openings, more sales in Greater China and increasing focus on e-commerce (Trefis 2017).

GUESS” (Digital Commerce, 2017), more than two thirds of revenue and profit growth will come from outside the U.S.: \$200 from the Asia segment and the remaining \$300 from Europe (Trefis, 2017). The CEO’s focus is to “rebalance a little bit [the] business between the international and the domestic” (RetailDIVE, 2017). While in the US market there is a drop on retailers traffic, declining margins in the Americas segment, Europe and Asia now account for around 60% of total sales and are growing faster due to more capital allocation (Trefis, 2017) (RetailDIVE, 2017). Still, “Expectations from 5 analysts are high, with earnings per share forecasted to rise significantly from today’s level of \$0.108 to more than double over the next couple of years. In the same period we will see the revenue increase from \$2,248M to \$2,485M and profits (net income) are predicted to shoot up from \$9M to \$102M in the next couple of years, more than doubling from the most recent level.” (Simply Wall Street, 2017)

Talking about the future, Victor Herrero said to Finance Yahoo (2017): "As I think about the future of our company, it is critical that we remain focused on flowing high-quality product, delivering best-in-class digital and in-store experiences, and maintaining our long-term brand building approach anchored on investments in advertising and marketing, supply chain and our digital platform.”

There is no doubt that GUESS? is making a comeback. The question is whether this strategy will be enough to make the brand go back to the success it once had.

TEACHING NOTE

Case Overview

In recent years, the Fashion Industry has gone through a profound transformation that has shaken its foundations. The consumer has a new and more important role, forcing brands to adapt their communication and their offers in order to maintain their relevance.

Thus, brands that are in the middle of the market are in a shaky position, suffering the pressure from upward brands that gain sales through selling entry-level products, thus reconnecting with the consumers, and from fast fashion brands that increasingly offer fashionable products. The place for Premium Industrial Brands is shrinking and brands need to develop differentiation strategies than ensures them a spot for the future.

The American premium brand GUESS? has lost its allure and is failing to succeed in this fast-changing environment. Still, the appointment of a new CEO, Victor Herrero, was the first indication that the company was aware of its compromising situation. GUESS?' new strategy revolves around a new Brand Identity, targeted at Millennials and Generation Z. Will this be the enough to survive the shrinking of the middle market?

Teaching Approach

Learning Objectives

This case asks students to analyse the current state of the Fashion industry, particularly the shrinking of the middle market. Apart from understanding the drivers and consequences of these changes, students are asked to deep dive into the history of the brand GUESS?, considering challenges and opportunities for the future. After analysing the case and answering the assignment questions, students should be able to:

- Define the concept of fashion and clearly distinguish between all market segments;
- Explain the evolution of the role of the consumer and how it has affected fashion brands' communications and business models;
- Outline the causes and consequences for the shrinking of the middle market and identify the key success factors for premium industrial brands to survive;
- Analyse the history of GUESS? and identify the challenges and opportunities they face;
- Identify which would be the most appropriate strategy for GUESS?'s future;
- Give recommendations to premium industrial brands in general.

Position in Course

This case should be used in undergraduate or masters' degrees, when teaching courses related to Marketing, Brand Management and/or Fashion. Its main purpose is to make students deep dive into the evolvement of the role of the consumer and its impact on the fashion industry, particularly in the premium sector, and make them think critically on the importance of a proper brand management, a strong differentiation and a powerful identity.

Relevant Readings

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Assignment Questions

1. Analyse the history of the brand and identify the main challenges of GUESS? in 2015. Identify as well the opportunities for the future of the brand at that time.
2. GUESS?'s new CEO Victor Herrero has implemented a certain of measures since his appointment in 2015. How is GUESS? planning to combat the shrinking of the middle market? Identify the pros and cons of their chosen strategy. Do you believe it will be the path to success?
3. In today's world, consumers want to resonate and connect emotionally with brands. Analyse critically the communication and marketing strategy of GUESS? since 2015 in regards to their pursued outcomes. What facets of the prism do you believe Guess should emphasize and/or change to engage Millenials and Generation Z?
4. If you were in Victor Herrero's shoes, what would you do? Which of the key success factors to survive the shrinking of the middle market would you implement and why? Conclude with recommendations for GUESS? and for premium industrial brands in general.

Teaching Plan

Prior to studying this case, students should already have knowledge on the fashion industry, on the multiple segments and their business models. Knowledge of the differences among luxury, fashion and premium could also be useful as well as familiarity with Kapferer's Brand Identity model.

An introductive discussion should include these key points:

How to Fight the Shrinking of the Premium Industrial Fashion Brands Category: The Case of the Brand *GUESS*?

- The paradigm of consumer empowerment and concepts like personal style, mix and match, omnichannel behaviour, the rise of bloggers, the culture of discounts, customization, instant gratification and consumer kinship, among others (da Silveira, 2016).
- Most fashion segments are adapting towards the empowered consumer: Couture and Demi-Couture brands are starting to offer customization, an omnichannel brand experience and instant gratification; Designer brands and Diffusion lines are offering more entry-level products and upgrading service; the Fast Fashion segment and Value and Discount are offering increasingly fashionable and quality products and respond to consumer's needs of instant gratification (da Silveira, 2016).
- The shrinking of the middle market is a direct cause of the adaptation of brands' business models to the new consumer and results in bottom and top pressure in the pyramid (da Silveira, 2016).
- Premium industrial brands are especially susceptible due to their business model, that causes them to highly depend on a very loyal customer base and, because of their long time to market, to suffer from stock problems. If they wish to survive, they should have a) strong identity, b) specific know-how or technique and/or c) explore specific local perceptions (da Silveira, 2016).

Analysis

1. The student should do an informal analysis, following the model of the five forces of Porter: context, company, customer, competitors and collaborators.

Context

- The current situation of the fashion industry, mainly the shrinking of the middle market and the retail crisis, was not optimal for a premium industrial brand like *GUESS*?; it required extreme measures for survival and at the time, *GUESS*? was doing nothing about it.
- The jeans industry was making a comeback (BOF, 2017);
- Communication between customers and brands is no longer linear; customers have a direct impact on the brand image of the brands and listen to their peers and influencers before making a decision. The consumer making decision process is completely changed and brands need to provide a seamless

experience across channels: customers should have the same impression of the brand regardless of the point of contact (McKinsey, 2016) (*See detailed statistics in APPENDIX 7*)

- Social fashion trends like mixing and matching between market segments and consumer kinship trends such as athleisure, genderless clothing, modest clothing, plus-size and adaptive fashion are rising (da Silveira, 2016) (BOF, 2017).

Company

- GUESS?'s strategic decisions were made with little attention to the future.
- GUESS? was not responding to threats and opportunities in the industry (eg. GUESS? digital and ecommerce were not major efforts; they did not make discounts; among others)
- GUESS' business model and classic supply chain is not prepared to deal with instant gratification.
- GUESS?' Brand Identity is not relatable to some of today's younger consumers but is very strong and appealing to an already loyal (but decreasing) consumer base.
- GUESS? has a strong but not widely know Corporate Social Responsibility program.

Customer

- Technology is a huge part of consumers' day-to-day activities and the internet is used daily throughout the whole decision-making process.
- Millenials and Generation Z consumers are increasingly more price-sensitive and they require justification to pay a price premium. "*So far in 2016, off-price shoppers account for 75 percent of apparel purchases across all channels, and some traditional retailers now have more outlet stores and discount stores than full-price shops.*" (McKinsey 2016)
- Consumers demand instant gratification and are eager to try and post about new trends.
- Consumers look for engagement with a brand: they need to feel and emotional connection, either based on the dream factor of a brand on what it represents. Social activism and sustainability, for example, are rising trends that make people, especially Millenials, increasingly connect with brands (da Silveira, 2016). At the same time, consumers increasingly look to fashion as a way of manifesting their identity through personal style (Corbellini and Saviolo, 2012).

Competitors

- Competitors were already changing their strategies and offering more appealing and trendy products as well as stronger emotional connections. Levi's identity, for example, is hugely based on their heritage and on a youthful and unique personality; Other brands have a very specific know-how that no other brands are capable of mimicking: like Salsa's slimming jeans and Diesel's washed fabrics; and Pepe Jeans, for example, was recently acquired by L Capital Asia (LVMH's Asian arm) to make the brand more global and stronger in specific markets (da Silveira, 2016).
- Levi's and G Star Raw are already implementing measures to make their jeans more sustainable; on the other hand, upcycling is already starting to be a trend, popularised by brands like Vetements (Fashionista, 2017).
- Fast Fashion's fashion supply chains allow them to have a time to market of only two weeks (Corbellini and Saviolo, 2012).
- Markets outside the US are less competitive when it comes to the jeans market (BOF, 2017)

Collaborators

- GUESS?'s widely known advertising has launched the careers of many models.
- GUESS? should develop more partnerships with digital influencers in order to remain relevant.
- GUESS? should put its products on more online marketplaces and take advantage of geographical specificities (McKinsey, 2016).
- GUESS? should have strong control over its licensees, as it is crucial for them to ensure that the store experience is the same across every point of sale (da Silveira, 2016).

The student should conclude that despite the difficult situation for middle market brands, denim is booming again and GUESS?'s successful heritage is a strong USP. Additionally, there are some opportunities the brand should take advantage of. However, success will completely depend on the strategic decisions that Victor Herrero will implement.

2. The student should start by identifying the Brand Identity as the key success factor GUESS? is implementing and go on to identifying pros and cons of using Brand Identity as the key success factor.

Pros:

- *GUESS?* identity is strong and has been very consistent for all the years of existence of the brand. Their ads are iconic and have launched multiple model careers. It is the image of *GUESS?* that makes the brand more memorable: maybe even more than the products themselves (The Fashion Studies Journal, 2017).
- Millennials and Generation Z deeply care about brands with which they feel a connection with.
- *GUESS?*' image has been successful for its loyal consumer base, today the Baby Boomers and Generation X.

Cons:

- Changing the Identity of a brand is not an easy or quick task and it has to be done with extreme caution to not undermine the heritage of a brand.
- Millennials and Generation Z, specifically, are looking to emotionally connect with brands, so *GUESS?*' slightly reinvented identity might not be enough for the brand to survive, at least in the long term, because of its strong focus on sex.
- Completely changing the Brand Identity could harm the loyal consumers of *GUESS?*; but minor changes, such as the ones done so far, could also not be enough. Thus, it will be hard to accomplish a successful balance.
- The advertisement of the new brand image may be hard to accomplish in the stores run by licensees.
- If *GUESS?*'s image is truly more powerful than its products, it will be very hard for the brand to succeed if the new identity does not resonate with consumers.

The student should conclude that using brand identity as the key success factor to survive the shrinking of the middle market might not be enough, especially to target Millennials and Generation Z. The strength of their image is actually a double-edged sword: it is the key to succeed if the image does resonate with consumers, but if it doesn't, the brand has nothing more to offer to consumers. Additionally, changing *GUESS?* consistent identity too much is a high risk, because it might more easily stop resonating with its

current loyal consumers than attract new ones. Therefore, GUESS? should consider to focus on other of the key points in order not to risk losing one of its greatest assets: its image.

3. The student should analyse critically some of the marketing measures GUESS? implemented.

- GUESS? has chosen to partner with a number of Millennial and Generation Z icons: Camila Cabello, A\$AP Rocky, Ariana Grande, Joe Jonas, and so on, as this strategy proved to be successful, bringing a lot of sales and attention towards the brand.
- However, there are some inconsistencies in GUESS? strategy such as choosing Jennifer Lopez as GUESS? girl after Camilla Cabello.
- Starting an athleisure was a way of connecting with the most recent consumer trends.
- The image of GUESS seems to be the same – sexy, 90's inspired pin-up girls, which still fails to give additional “meaning” to the brand. To target younger consumers, they should focus on creating a plus. The student should give an example to what this meaning could be and create a new Brand Identity from that point on.
- For GUESS?'s new identity, the student should also conclude that, in line with the next question and with GUESS' new key success factor, the relationship facet should gain more importance, with quality and confidence being reinforced. To the Culture facet values of “heritage” and “know-how” should be added and emphasize as well “corporate social responsibility” as well as sustainability, since this is the biggest weapon against fast fashion companies. Together, these two facets would provide additional reason for their price premium.

4. The student should start by weighting on the two factors and chose the best one for GUESS? to implement at the current moment (da Silveira, 2016).

- Specific know-how or technique: The focus of GUESS? has always been denim. They have a vast knowledge on how to produce the best washes and fits, that they claim that cannot be found in any other brand, and they were among the first brands to produce “designer jeans”.

- Explore specific local perceptions: for the first time, GUESS? is focusing more on the international market than on the domestic one; they are currently having increasing success in Europe and Asia, and are already developing measures to better explore each market.

The student should then conclude that despite the fact that GUESS? should as well continue to take the opportunity to explore specific local perceptions in its expansion plans, in order to remain relevant in its current markets and in their desired consumers, it is crucial that GUESS? focuses on the “specific know-how or technique”. GUESS?’ communication should focus on the know-how and experience of the brand. They have a very strong and authentic heritage to communicate, and “Heritage is also a way of understanding the key resources and competencies the brand has developed as something unique. (...) Competitors can imitate a brand or its products – but not its history.” (Corbellini and Saviolo, 2012). This focus on heritage would also give consumers a reason to believe in regards to the price premium, since it will give additional focus to the quality of the jeans, both regarding the material, the manufacturing process and the fit. Additionally, and because GUESS?’ stylistic identity is inspired by their European roots, they can do as well country branding, since “the positive image of a nation can enhance the commercial perception of a brand (...) [and] cannot be imitated.” (Corbellini and Saviolo, 2012). He should then move on to give recommendations on its implementation, in regards to the product offer, communication and marketing strategy:

- GUESS? should try to bifurcate its portfolio: it should offer a super-premium service in every point of contact with consumers, always reinforcing the heritage of the brand, the manufacture process, its iconic products, and so on. At the same time, they should continue to offer cheaper lines, since, according to the case, that strategy has been successful so far.
- The focus of Communication should heritage: GUESS?’s campaigns are iconic and therefore they should not be altered in terms of style, but it would be interesting for them to include iconic products or remakes of previous campaigns (Like Claudia Schiffer’s anniversary campaign). On social media, images should be less sexualized and following more the know-how of the brand as well as real people

using *GUESS?* in order to create better engagement. Social networks would also be a great place to showcase *GUESS?*'s corporate social responsibility program, both regarding sustainability and charity.

- 80% of *GUESS?*' revenues come from their licensing division, and, in the middle market, that percentage should come from their iconic products (da Silveira, 2016)). *GUESS?* should continue bring its iconic products back to the core of the brand and reinvent them with innovative techniques and fabrics that will appeal to the new denim consumer, like it has done before for its 30th Anniversary collection and currently in the *GUESS* Originals line, as well as continuing its with partnerships with influencers and celebrities (Business of Fashion, 2017) (Corbellini and Saviolo, 2012).
- Social media plays an increasingly active role in the purchase decision process; therefore, *GUESS?* should definitely partner with digital influencers. However, because its strategy is to focus on a specific know-how, it would be interesting to partner with people who are experts on fashion and therefore recommend *GUESS?* for a reason.
- To contradict the decrease in foot traffic, a store should be a place where consumers come to be informed, educated and entertained. *GUESS?* should provide a better in-store experience to attract consumers (McKinsey X BOF, 2017) and reinforce its heritage and know-how. They could do this by creating pop-up stores to showcase their iconic collections (McKinsey, 2017); create a "learning zone" where consumers could learn how *GUESS?* makes its iconic products; and offer customization, one of the major fashion trends for 2018 (McKinsey X BOF, 2017). "The theatre of retail now is what people are after. If I'm going to put down my laptop or iPhone and I'm not shopping on Amazon or Wayfair, I want you to treat me to an experience that I can't have online." The future of retail, according to Stephens, is "a physical form of media; you are physically and emotionally immersed in it." (BOF; 2017)
- To deal with the stock problems, companies are increasingly trying to change their business models and supply chains and make them more consumer centric in order to tackle instant gratification. *GUESS?*' pull and demand strategy should definitely stay as one of their top priority, as well as a bigger focus on timeless iconic collections and additional trendy capsule collections. To increase

loyalty, GUESS? should also in personalized marketing, to retarget consumers and remind them of GUESS?, and create loyalty programs (McKinsey, 2017).

- Additionally, as “The global fashion industry is moving into a decisive phase of digital adoption by the mainstream consumer” (McKinsey X BOF, 2017), it is crucial for GUESS? to continue expanding their digital business and focus on the omnichannel experience, never forgetting its focus on heritage and know-how. *(See detailed statistics in APPENDIX 8)*

The student should then conclude with recommendations for the whole middle market segment.

- Premium Industrial Brands need to be extremely attentive to the market at all times.
- It is essential for them to analyse the company and its history internally, as well as the market externally, and understand how they can differentiate themselves from competitors.
- Companies should choose the key success factor that will give them most differentiation – it is all about showing the consumers why they are paying a price premium. Also, they should avoid getting stuck in the middle.
- Companies need to focus on the consumer and what he is looking for. Today, it all comes down to brands that consumers like the most and, with the increasing competition, brands need to do everything they can to be the choice. However, they must not forget that it needs to be authentic.

As for the future

This case was written in parallel with the unravelling of the story. Therefore, only the future will tell what will happen to GUESS?. However, after weighting on all the available information, the most likely to happen is that if GUESS? continues following the current strategy, it will not reach the success it has had once before. However, if it decides to rebuild the strategy and follow the recommendations above, it might.

“For those leaning forward and willing to help design the new features of the modern fashion system, the opportunities at hand to truly connect with fashion consumers across the globe have never been greater.”
(McKinsey X BOF, 2017)

CONCLUSION

The case study “How to Fight the Shrinking of the Premium Industrial Fashion Brands Category: The Case of the Brand *GUESS?*” focuses on a recent issue that will have big impacts on the future of the industry. Brand management is a delicate art; especially when combined with Fashion or Luxury. The world keeps evolving faster every time and therefore, major changes will be more frequent and more impactful. That is why it is key for someone studying Brand Management and Fashion Marketing to be aware of the importance of being attentive to the industry and the company at all times. The purpose of this case is to make students think more critically and have the opportunity to analyze a market leader and its efforts to remain relevant in a changing world.

The main limitation of this thesis is the lack of information on the consumer of *GUESS?*, both regarding revenues or purchases by demographics and consumer’s opinion and loyalty towards the brand. As said in the beginning, the project was done recurring only to external data, since its purpose was to analyze a very recent trend in the fashion industry that, so far, has not yet been studied, at least in this manner. My decision on choosing *GUESS?* was based on the fact that this company has been very successful for years – and still is – but that, despite its strong image, it is still suffering pressure from the shrinking of the middle market. On a second point, the fact that in 2015, there was a change in strategy, made it even more interesting to analyze, since the company was in fact implementing one of the key success factors premium industrial brands should use to survive the shrinking. Therefore, my focus was more on a theoretical approach – analyzing a particular brand and how it could apply the key success factor to survive the shrinking of the middle market. However, as a recommendation for the future, I would advise the conduction of qualitative interviews with consumers from around the world in regards to their opinion on the current identity of the brand and on their intentions to purchase, since this would be another very interesting approach and addition to this case. Additionally, a collaboration with *GUESS?* would also be very beneficial to this project, since it would allow, for example, a social media listening analysis and deeper insights regarding the consumer demographics.

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Note: The first appendix is the “Case Exhibits” and contains relevant information for students solving the case, and in practical terms, it should follow the Case Study Narrative. All other appendixes contain additional information such as literature review, graphics and tables and are referenced in the text.

APPENDIX 1. Case Exhibits

1. The Marciano brothers



Figure 1. Armand, Paul and Maurice Marciano



Figure 2 – Georges Marciano

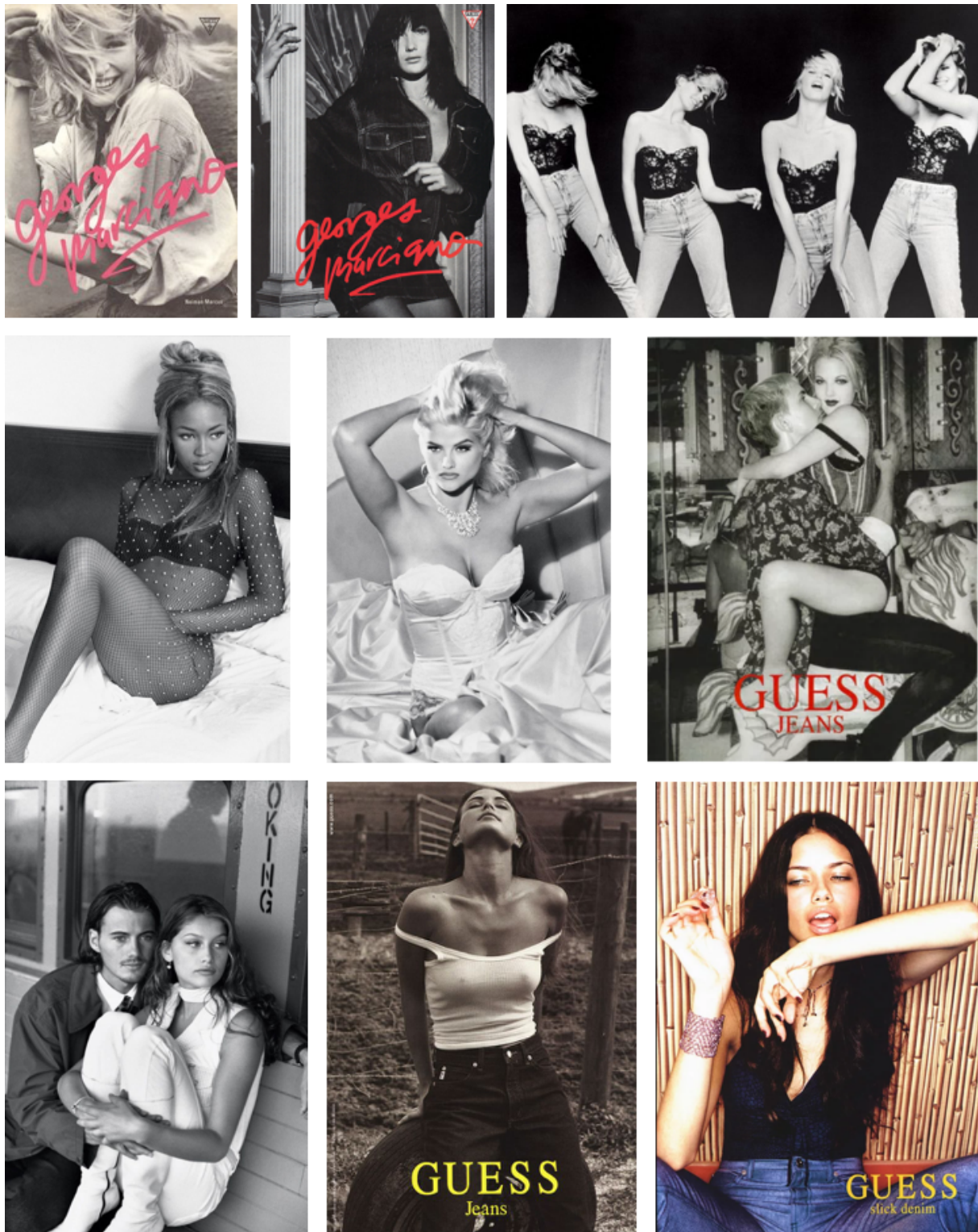
2. The Marilyn jeans



Figure 3 and 4. Guess Anniversary collection featuring the Marilyn jeans. Unfortunately, there are no photographic records of the first Marilyn jeans.

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3. Advertising throughout the years



Figures 5-13. From top and right, Estelle Lefebure, 1986; Carla Bruni, 1987; Claudia Schiffer, 1989-1990; Naomi Campbell, 1991; Anna Nicole Smith, 1993; Drew Barrymore, 1993; Laetitia Casta, 1993; Josie Maran, 1998; Adriana Lima, 2000.

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Figure

14-21. From top and right, Alessandra Ambrosio, 2000; Paris Hilton, 2009; Jessica Hart, 2007; Iryna Shayk, 2008-2009; Candice Swanepoel, 2010; Amber Heard, 2011; Kate Upton, 2011; Claudia Schiffer, 2012.

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Figure 22-26. Priyanka Chopra, 2013; Gigi Hadid, 2014; Camila Cabello, 2017; Ireland Baldwin, 2017; Jennifer Lopez, 2017

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4. Some examples of the product range



Figure 27. GUESS? Product Portfolio.

5. Guess stores in the world



Figure 28-31. GUESS' retail stores. From top left to right, GUESS' flagship store in NY outside and inside, GUESS' store in Tokyo, Japan, GUESS' store in Córdoba, Spain and inside of GUESS' flagship NY store.

6. Different brands

Guess follows a source brand strategy, explained by Kapferer (2012) as when a “parent brand offers its significance and identity, modified and enriched by the daughter brand in order to attract a specific consumer segment”. In this strategy, it is essential for all brands to respect the core identity of the parent brand. (Kapferer, 2012)



Guess? or *GUESS* is a symbol of a young, sexy and adventurous lifestyle. Its consumer is “a style-conscious consumer primarily between the ages of 20 and 35. These consumers are part of a highly desirable demographic group that we believe, historically, has had significant disposable income.” (GUESS, 2017)



G by *Guess?* is a lower line, aimed at a younger crowd, inspired by the Californian lifestyle and aesthetic.



GUESS by Marciano is an specialty upper line, more fashion-forward and sophisticated, aimed at trend-setting women and men. Its target slightly differs from the one pursued both by *Guess?* and G by *Guess*.



Guess Kids also aims at a different target: girls and boys from 6 to 12 years old.

Source: West Gate Oxford, 2017

Figures 32-36. Logos of GUESS' brands.

7. Operations and Distribution

GUESS'S SEGMENTED OPERATIONS

Europe	Wholesale and retail operations in Europe and Middle East
Americas	Retail and ecommerce operations in North and Central America and retail operations
Retail	South America
Asia	Wholesale and retail in Asia
Americas	Wholesale in North America and export sales to Central and South America
Wholesale	
Licensing	Guess' worldwide licenses with 15 domestic and international licenses. Distributors and Licensees stores are located in South America, Europe, Asia, Africa, Australia and the Middle East. There are an additional 192 smaller licensee operated concessions mainly in Asia (Reuters 2017).

Table 1. GUESS' operations divided in segments.

Region	Total Stores	Directly Operated Stores	Licensee Stores
United States	341	339	2
Canada	111	111	—
Central and South America	95	51	44
Total Americas	547	501	46
Europe and the Middle East	629	336	293
Asia	504	108	396
Total	1,680	945	735

This store count does not include 446 concessions located primarily in South Korea and Greater China, which have been excluded because of their smaller store size in relation to our standard international store size. Of the total 1,680 stores, 1,320 were GUESS? stores, 215 were GUESS? Accessories stores, 74 were G by GUESS stores and 71 were MARCIANO stores.

Source: GUESS Fiscal 2017 Annual Report

Table 2. GUESS' stores around the world.

8. Brand Identity concept and GUESS' Identity Prisms

The Brand Identity is key to the management strategy of a brand. Furthermore, as previously explained, Premium Industrial Brands need to have a very well defined Identity in order to differentiate themselves and to prove their real value to consumers.

“Brand identity is the common element sending a single message amid the wide variety of its products, actions and communications.” (Kapferer, 2012) It represents “brand uniqueness and singularity throughout the word and whatever the product.” (Kapferer 2012: 156) The model relies on six facets: physical, relationship, customer reflection, personality, culture and self-image. Each facet should be unique and different from the other, without being separated: the six facets, together, should form one strong entity. The Physical facet “ (...) is made of a combination of either salient objective features (which immediately come to mind when the brand is quoted on a survey) or emerging ones.” (Kapferer, 2012) It is the backbone of the brand and its tangible added value. Although the physical appearance is very important, one should not forget about its functional added value because “Brands are two-legged value-adding systems.” (Kapferer, 2012).

The Personality is defined by the human personality traits than can be relevant for brands. It is “The way in which it speaks of its products or services show what kind of person it would be if it were human.” (Kapferer, 2012) This facet will fulfil a psychologic function, according to Kapferer, allowing the “(...) consumers either to identify with it or to project themselves into it.” (Kapferer, 2012). It should as well be the main source for advertising.

The facet of Culture is considered by Kapferer to be the most important of them all. “A strong brand is a vision of the world”, it is an ideology with which a group will identify and create a cult about. “Brands must foster an ideal” that creates meaningfulness for its audience. It is crucial for managers to understand that brands are in an ideological competition (Kapferer, 2012).

The Relationship refers to what the brand is offering to its consumers in tangible and intangible assets, it is “the mode of conduct that most identifies the brand” (Kapferer, 2012). The Customer Reflection “is not describing the target; rather, the customer should be reflected as he/she wishes to be seen as a result of using the brand. It provides a model with which to identify.” (Kapferer, 2012) because “Consumers indeed

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use brands to build their own identity.” (Kapferer, 2012). “In the ready-to-wear industry, the obsession to look younger should concern the brands’ reflection, not necessarily their target.” (Kapferer, 2012). While the Customer Reflection has to do with the consumer’s feelings, the sixth and last facet, Self-Image, looks at what the managers of the brand believe the consumers feels when purchasing from them. It is “the target’s own internal mirror (I feel, I am...)” (Kapferer, 2012). The consumer will, then, “develop a certain type of inner relationship” (Kapferer, 2012) with himself, feeling more truthful to his own identity and to his own community.

According to Kapferer, at the centre of the identity prism, one should be able to find the brand essence, “the central value it symbolizes”. (Kapferer, 2012)

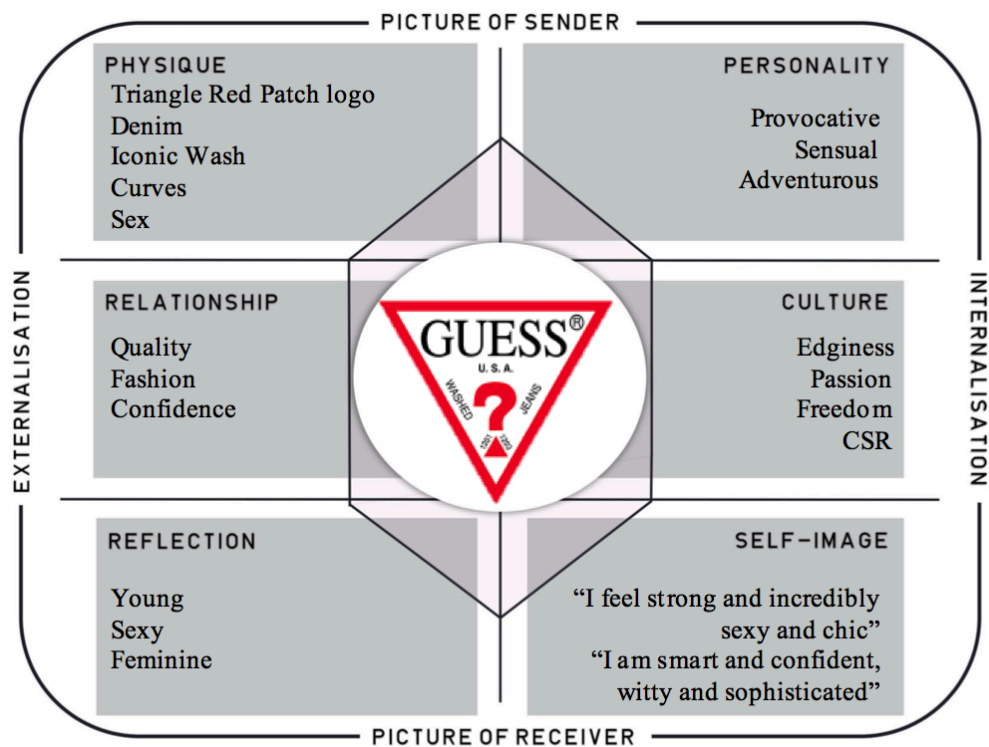


Figure 37. GUESS?’s Brand Identity prior to Victor Herrero’s appointment

**How to Fight the Shrinking of the Premium Industrial Fashion Brands Category:
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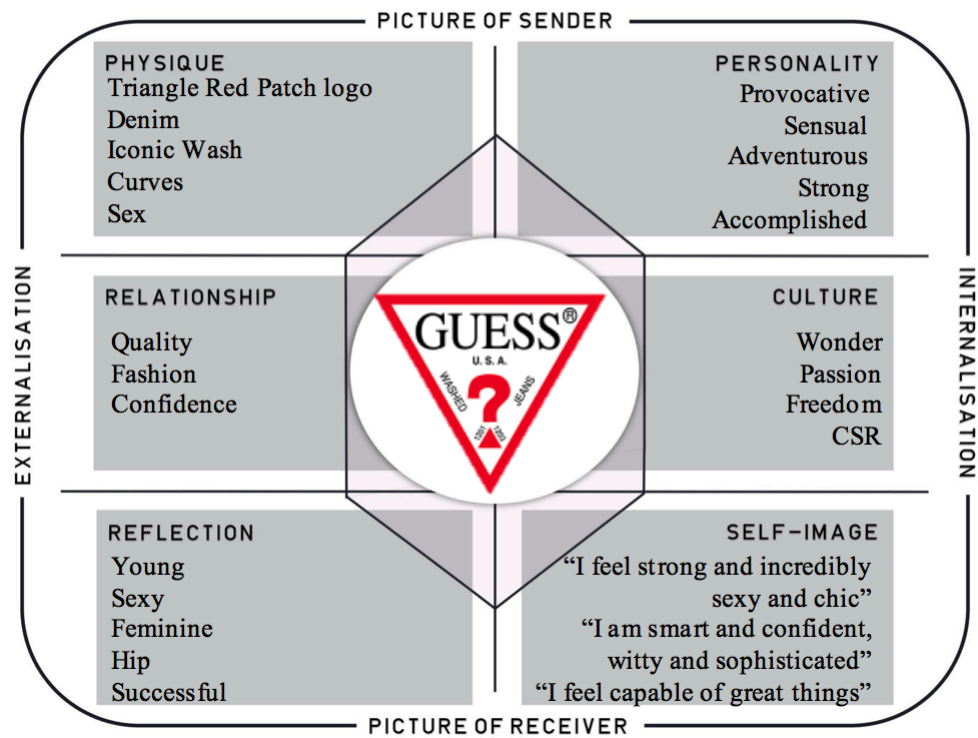


Figure 38. GUESS?'s Brand Identity after Victor Herrero's appointment

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9. Guess Originals X A\$AP Rocky



Figures 39–42. GUESS Originals X A\$AP Rocky Ad and Products.

10. Demographics table

Generation Name	Births Start	Births End	Youngest Age Today*	Oldest Age Today*
The Lost Generation - The Generation of 1914	1890	1915	102	127
The Interbellum Generation	1901	1913	104	116
The Greatest Generation	1910	1924	93	107
The Silent Generation	1925	1945	72	92
Baby Boomer Generation	1946	1964	53	71
Generation X (Baby Bust)	1965	1979	38	52
Xennials -	1975	1985	32	42

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Generation Y - The Millennials - Gen Next	1980	1994	23	37
iGen / Gen Z	1995	2012	5	22
Gen Alpha	2013	2025	1	4

Table 2. Demographics Generation table (Career Planner, 2016)

11. Generational Marketing – Attitude towards Brand Identity

Generation marketing is a marketing approach that uses a generational segmentation to communicate with consumers (Wordstream, 2017). According to a Moosylvania study from 2015 (where *GUESS?* was not featured in the top 50 brands), Millennials value at most “high quality products” (75%) their opinions towards recommending the brand (61%). All other four characteristics are related to a Brands Identity: if it “fits their personality”, “social responsibility”, “shared interests” and “says important things. Additionally, they concluded that Millennials look for specific benefits when buying from a brand: “Make me look good”, “Make me feel good” and “Entertain me”. Another finding was that the most favourite brands are easily replaced with time and that brands are quickly favorited if they do something that truly engages with Millennials – “Millennials are not consumers and especially not targets in a military-style marketing blitz – they’re friends.” (Moosylvania, 2015).

Another study, conducted by the Reputation Institute (2017), measured which brands Millennials felt like had the best reputation (here, reputation is seen as an emotional bond that ensures that consumers will buy from a brand, among others). They concluded that Millennials are influenced by macro-trends such as “Values”, “Transparency”, “Privacy”, “Diversity” and “Social Responsibility”. The retail sector ranks 3rd as the most reputable industry for Millennials and their view of companies is driven by the product and Corporate Social Responsibility. (Reputation Institute, 2017).

As Millennials, Generation Z loves uniqueness and loves to express their personality through style. They are less price sensitive than Millennials and they have a huge digital footprint (nearly 92% of the whole Generation Z are connected to digital platforms) and are more addicted to digital devices (Huffington Post, 2016). “Authenticity was, and still is, a trait valued by millennials, but for Gen Z it’s not enough to

have an authentic style, tone of voice and ideals; you must have an authentic reason to exist and be inclusive, diverse, kind and demonstrate passion with purpose.” (The Drum 2017). They also prefer activewear to denim. (Business Insider 2015). They are even less brand loyal and more likely to search for recommendations on the internet. Millennials are more likely to shop online, while Generation Z prefers to shop in-store. Although they both like experiences, while Millennials actually look for experiential purchases, Generation Z like to go to stores to have both materialistic and interactive customer journeys. Additionally, they respond more to real people than celebrities and their favourite social media is YouTube (Millennial Marketing, 2017).

When it comes to older generations, Baby boomers are more brand loyal and more responsive to traditional marketing as in they like to talk to real people before they buy a product. They are also less price sensitive. Generation X is more price sensitive but is also extremely loyal, and they care a lot about Corporate Social Responsibility (Retail Dive, 2011) (Wordstream, 2017).

12. Financials

**How to Fight the Shrinking of the Premium Industrial Fashion Brands Category:
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	Year Ended (1)				
	Jan 28, 2017	Jan 30, 2016	Jan 31, 2015	Feb 1, 2014	Feb 2, 2013
	(in thousands, except per share data)				
Statements of income data:					
Net revenue	\$2,209,368	\$2,204,311	\$2,417,673	\$2,569,786	\$2,658,605
Earnings from operations (2) (3)	22,708	121,350	125,912	222,587	274,525
Income tax expense (4)	28,212	42,464	45,824	75,248	99,128
Net earnings attributable to Guess?, Inc. (2) (3) (4) (5)	22,761	81,851	94,570	153,434	178,744
Net earnings per common share attributable to common stockholders (2) (3) (4) (5):					
Basic	\$ 0.27	\$ 0.97	\$ 1.11	\$ 1.81	\$ 2.06
Diluted.....	\$ 0.27	\$ 0.96	\$ 1.11	\$ 1.80	\$ 2.05
Dividends declared per common share	\$ 0.90	\$ 0.90	\$ 0.90	\$ 0.80	\$ 2.00
Weighted average common shares outstanding—basic	83,666	84,264	84,604	84,271	86,262
Weighted average common shares outstanding—diluted.....	83,829	84,525	84,837	84,522	86,540

- (1) The Company operates on a 52/53-week fiscal year calendar, which ends on the Saturday nearest to January 31 of each year. The results for fiscal 2013 included the impact of an additional week which occurred during the fourth quarter ended February 2, 2013.
- (2) During each of the years presented, the Company recognized asset impairment charges for certain retail locations resulting from under-performance and expected store closures. Asset impairment charges recognized were approximately \$34.4 million in fiscal 2017, \$2.3 million in fiscal 2016, \$24.8 million in fiscal 2015, \$8.8 million in fiscal 2014 and \$10.1 million in fiscal 2013, respectively. Refer to Note 5 to the Consolidated Financial Statements for further detail.
- (3) During fiscal 2017, the Company incurred restructuring charges of \$6.1 million. During fiscal 2014, the Company incurred restructuring charges of \$12.4 million. Refer to Note 9 to the Consolidated Financial Statements for further detail.
- (4) During fiscal 2017, the Company recorded valuation reserves of \$6.8 million resulting from jurisdictions where there have been cumulative net operating losses, limiting the Company's ability to consider other subjective evidence to continue to recognize the existing deferred tax assets. During fiscal 2017, the Company also recorded an estimated exit tax charge of \$1.9 million related to the Company's reorganization in Europe as a result of its global cost reduction and restructuring plan. During fiscal 2013, the Company settled a tax audit dispute in Italy, resulting in a charge of \$12.8 million in the fourth quarter of fiscal 2013 in excess of amounts previously reserved, which was partially offset by unrelated tax benefits of \$4.0 million. Refer to Note 11 to the Consolidated Financial Statements for further detail.
- (5) During fiscal 2017, the Company sold its minority interest equity holding in a privately-held boutique apparel company for net proceeds of approximately \$34.8 million, which resulted in a gain of approximately \$22.3 million which was recorded in other income.

Source: GUESS Fiscal 2017 Annual Report

Table 3. Selected Financial Data from the last five fiscal years.

**How to Fight the Shrinking of the Premium Industrial Fashion Brands Category:
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	Year Ended Jan 28, 2017		Year Ended Jan 30, 2016		Year Ended Jan 31, 2015	
Net revenue:						
Americas Retail.....	\$ 935,479	42.4%	\$ 981,942	44.5%	\$ 1,032,601	42.7%
Europe	791,673	35.8	727,144	33.0	825,136	34.1
Asia	250,363	11.3	241,571	11.0	281,090	11.6
Americas Wholesale.....	141,019	6.4	149,797	6.8	167,707	7.0
Net revenue from product sales..	2,118,534	95.9	2,100,454	95.3	2,306,534	95.4
Licensing	90,834	4.1	103,857	4.7	111,139	4.6
Total net revenue	<u>\$2,209,368</u>	<u>100.0%</u>	<u>\$ 2,204,311</u>	<u>100.0%</u>	<u>\$ 2,417,673</u>	<u>100.0%</u>
Earnings (loss) from operations:						
Americas Retail.....	\$ (56,757)	(249.9%)	\$ 16,222	13.3%	\$ (13,734)	(10.9%)
Europe	57,044	251.2	55,438	45.7	66,231	52.6
Asia	(2,492)	(11.0)	10,448	8.6	8,013	6.4
Americas Wholesale.....	22,489	99.0	27,525	22.7	34,173	27.1
Licensing	80,365	353.9	92,172	76.0	101,288	80.4
Corporate Overhead	(71,858)	(316.4)	(80,455)	(66.3)	(70,059)	(55.6)
Restructuring Charges	(6,083)	(26.8)	—	—	—	—
Total earnings from operations...	<u>\$ 22,708</u>	<u>100.0%</u>	<u>\$ 121,350</u>	<u>100.0%</u>	<u>\$ 125,912</u>	<u>100.0%</u>

Source: GUESS? 2017 Fiscal Annual Report

Table 4. Net revenues and earnings from operations by segment in the last three fiscal years.

	Fiscal 2017	Fiscal 2016	Change	% Change
Net revenue:				
Americas Retail	\$ 935,479	\$ 981,942	\$ (46,463)	(4.7%)
Europe	791,673	727,144	64,529	8.9
Asia.....	250,363	241,571	8,792	3.6
Americas Wholesale.....	141,019	149,797	(8,778)	(5.9)
Licensing	90,834	103,857	(13,023)	(12.5)
Total net revenue	<u>\$ 2,209,368</u>	<u>\$ 2,204,311</u>	<u>\$ 5,057</u>	<u>0.2%</u>
Earnings (loss) from operations:				
Americas Retail (1)	\$ (56,757)	\$ 16,222	\$ (72,979)	(449.9%)
Europe (1).....	57,044	55,438	1,606	2.9
Asia (1)	(2,492)	10,448	(12,940)	(123.9)
Americas Wholesale.....	22,489	27,525	(5,036)	(18.3)
Licensing	80,365	92,172	(11,807)	(12.8)
Corporate Overhead	(71,858)	(80,455)	8,597	(10.7)
Restructuring Charges	(6,083)	—	(6,083)	—
Total earnings from operations.....	<u>\$ 22,708</u>	<u>\$ 121,350</u>	<u>\$ (98,642)</u>	<u>(81.3%)</u>
Operating margins:				
Americas Retail (1)	(6.1%)	1.7%		
Europe (1).....	7.2%	7.6%		
Asia (1)	(1.0%)	4.3%		
Americas Wholesale.....	15.9%	18.4%		
Licensing	88.5%	88.7%		
Total Company	1.0%	5.5%		

Source: GUESS? 2017 Fiscal Annual Report

Table 5. Net revenues and earnings from operations by segment in fiscal 2017 and fiscal 2016.

Source: GUESS? 2017 Fiscal Annual Report

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	Fiscal 2016	Fiscal 2015	Change	% Change
Net revenue:				
Americas Retail	\$ 981,942	\$ 1,032,601	\$ (50,659)	(4.9%)
Europe	727,144	825,136	(97,992)	(11.9)
Asia.....	241,571	281,090	(39,519)	(14.1)
Americas Wholesale.....	149,797	167,707	(17,910)	(10.7)
Licensing	103,857	111,139	(7,282)	(6.6)
Total net revenue	<u>\$ 2,204,311</u>	<u>\$ 2,417,673</u>	<u>\$ (213,362)</u>	<u>(8.8%)</u>
Earnings (loss) from operations:				
Americas Retail (1)	\$ 16,222	\$ (13,734)	\$ 29,956	218.1%
Europe (1).....	55,438	66,231	(10,793)	(16.3)
Asia (1).....	10,448	8,013	2,435	30.4
Americas Wholesale.....	27,525	34,173	(6,648)	(19.5)
Licensing	92,172	101,288	(9,116)	(9.0)
Corporate Overhead	(80,455)	(70,059)	(10,396)	14.8
Total earnings from operations.....	<u>\$ 121,350</u>	<u>\$ 125,912</u>	<u>\$ (4,562)</u>	<u>(3.6%)</u>
Operating margins:				
Americas Retail (1)	1.7%	(1.3%)		
Europe (1).....	7.6%	8.0%		
Asia (1).....	4.3%	2.9%		
Americas Wholesale.....	18.4%	20.4%		
Licensing	88.7%	91.1%		
Total Company	5.5%	5.2%		

Table 6. Net revenues and earnings from operations by segment in fiscal 2016 and fiscal 2015.

13. Chronogram

1981: Guess was born.

1982: Debut of a men's line through a licensing agreement with Jeff Hamilton, Inc.

1983: Agreement with Jordache

1984: New line of watches, "Guess". "Guess Steel" and "Guess Collection"

1984: Launch of "Baby Guess"

1984: Marcianos sue the Nakash brothers from Jordache

1985: Introduction of the iconic black-and-white ads

1986: Men jeans are brought in house, because Hamilton's Guess line was harming the high end image of Guess

1990: The Marcianos regain full control of Guess

1990: Launch of "Guess Home"

1993: Georges steps down from Guess and Maurice takes his place as CEO and designer

1994: Guess Foundation was created

1996: Guess becomes a publicly traded company

1999: First ecommerce retail store

2000: Carlos Alberini comes to GUESS?

2004: Launch of GUESS by Marciano

2005: Launch of Perfume

2006: First line of perfume for Men

2006: Guess Kids line starts being sold in outlet

2006: Launch of Marciano for men

2007: Pulldown of Marciano for men

2007: Launch of G by Guess

2007: Maurice Marciano departs his co-CEO position at GUESS?

2010: Carlos Alberini leaves GUESS?

2012: Maurice Marciano completely steps down from all activities at GUESS?

2012: Claudia Schiffer returns to pose for Guess to mark the brand's 30th anniversary

2013: Guess launches a Model Search competition

2015: Victor Herrero substitutes Paul Marciano as CEO for Guess

2016: Launch of Europe Eco collection

2016: Launch of GUESS Originals line with A\$AP Rocky

2016: Launch of Athleisure line with Ariana Grande

APPENDIX 2. The Concept of Fashion

Fashion has existed since almost the beginning of times. Recent research claims that fashion did not appear only during the Renaissance, but that it must have appeared during the first century in different civilizations: in Rome, historians noted changes in rings fashion in the Mediterranean; and in Japan, calling someone a *imamekashi* (on trend) was a great compliment (Godart, 2012). Fashion as an industry, however, started only in the 19th century, with the first “modern designer” said to be Charles Frederick Worth when he sewed his label to his garments (Kent, 2003).

At a contrast with the garment conventions that existed before then, that determined who could wear a certain style of clothing, fashion began when the taste for ornament and for the new and different became stronger than functionality. “[Fashion] permits the realization of a paradox: to be unique and unmistakable, and simultaneously declare belonging to a group, whichever it might be.” (Lehnert, 2000)

According to Godart (2012), “Fashion can also be defined as the [clothing] industries, in which multiple actors (...) produce designs and garments that will appeal to customers”.

Perhaps one of the most important characteristics of fashion is its seasonality and ephemerality. The opposition “In Fashion/Out of Fashion” is constant and always changing. “A product, a service, or even a social behaviour, is considered “fashionable” if it is widely approved by a specific public in a specific time and social context. If the consumption of a fashionable item is removed from its specific social context than it loses any meaning, and changes in fashion do not entail any improvement in product quality.” (Corbellini and Saviolo, 2012). “The process of change is partly driven by the cycle of the seasons (...) and partly by the fashion cycle itself (introduction, peak and decline of a certain fashion”

According to these authors, the fashion cycles can be long (basics), seasonal or a “fad” (short-lived fashion) (Corbellini and Saviolo, 2012). It is important to note, however, that both Haute Couture and Apparel do not obey this rule: the first one because being Luxury, it is timeless; and the second because it fulfils only an utilitarian function (Kapferer and Bastien, 2009). Fashion is also cyclical, because trends always – or almost always – come back.

“Up to now there has been no other field of human activity where the systematic change of the product has been institutionalized as it has in clothing and the consumer goods closely related to apparel (...) seasonal change has truly become quite an obsession. (...) This is due to the fact that clothing is, or is ought to be, the expression of a development in customs, social context, culture and lifestyle, in a phenomenological context that is much wider and more complex than clothing itself.” (Corbellini and Saviolo, 2012)

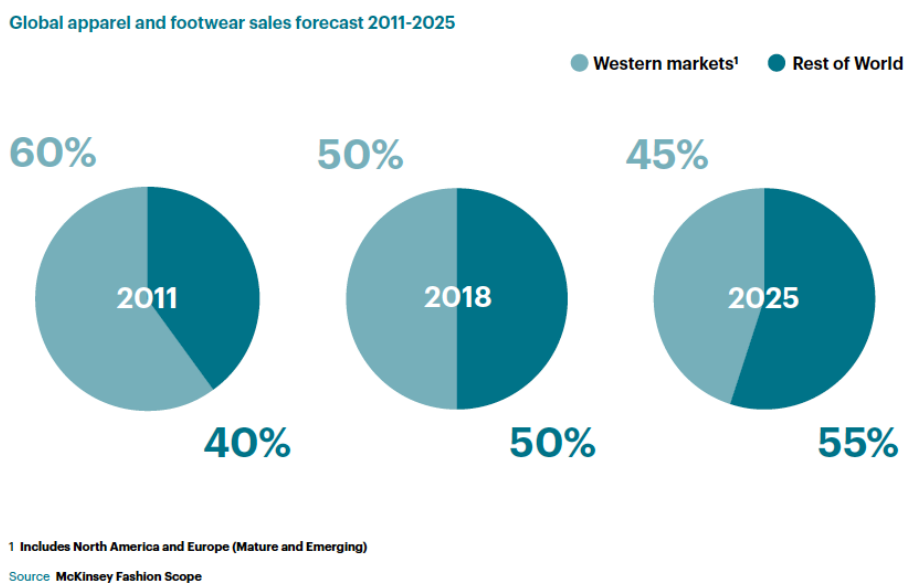
“Fashion is obsessed with being out of fashion. As soon as this happens, prices must be cut by 50 per cent, and profitability disappears. As a result, fashion does not produce high-quality products: it is not

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worth it. Clothes are not supposed to last after the season. Fashion is ephemeral; luxury is enduring.” (Kapferer and Bastien, 2009).

Fashion is also associated with the Dream factor. When buying from a brand, consumers buy into its identity and the lifestyle that it proposes. Creating a dream factor is essential to make consumers buy into their emotional associations and connect with the brand and among themselves, thus creating a group (Corbellini and Saviolo, 2012).

APPENDIX 3. Fashion Industry sales growth

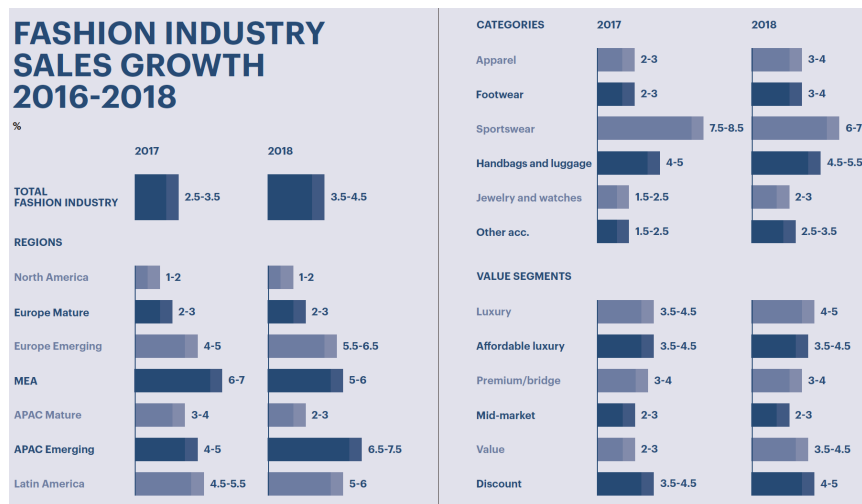


Graphic 1. Forecasted fashion industry sales growth 2017-2018 % (McKinsey X BOF, 2017)



Graphic 2. Global Apparel and footwear sales forecast 2011-2025 (McKinsey X BOF, 2017)

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Graphic 3. Fashion Industry Sales Growth 2016-2018 (McKinsey X BOF, 2017)

Note. In this graphic, the segment of Premium Industrial brands is described by Mid-Market.

APPENDIX 4. Luxury, Premium and Fashion: Social Functions

Until the 19th century, fashion and luxury were completely overlapped. Only the highest members of society bought clothes driven by desire and not necessity. A century later, society changed, and fashion diverged from luxury. Today, the overlap between fashion and luxury is extremely small (Kapferer and Bastien, 2012). According to Kapferer and Bastien (2009), *“fashion would like to think of itself as belonging to the world of luxury in order to improve its status.”* To do so, fashion takes on from some of the aspects that characterize luxury, such as being driven by something other than necessity as well as conferring a certain status quo to its owner. This overlap, or this “two-way traffic”, as the authors refer to it, have caused some semantic confusion between the two concepts. However, while Luxury has always had a hierarchical function - in the past, it indicated rank in aristocratic societies and it was exclusive to those with most power and used to impress their crowds - today, luxury appears as a “new social marker”, creating social stratification in countries where previously there was not any (da Silveira, 2016). This happens in the emerging countries, where people look to luxury as a means of showing to others their position in the societies’ hierarchy, buying not to be considered the best or above others, but to not be considered below. It does not create differentiation, but belonging (da Silveira, 2016). On the contrary, fashion has a dual function, related to massification and urbanization (Kapferer and Bastien, 2009).

According to Kapferer and Bastien (2009), fashion is used by society as a way or regaining lost time or even creating an illusion of time. In our “unnatural societies”, fashion imposes a rhythm to time with its seasonality, a cyclical time that goes against the linear notion of time imposed by Modernity. In the anonymous and undifferentiated societies, fashion creates a sense of horizontal differentiation, allowing people to become members of a tribe, “young city people that gathered in relatively small, fluid groups that share common interests that were, in general, different from the interests of mainstream culture” (meaning retrieved from urban dictionary.com). Finally, there are some people that use fashion as a way of rejecting social stratification by pursuing social differentiation.

In summary, fashion and luxury both appeal to the need to appear different and to be differentiated socially, either vertically or horizontally - but they are fundamentally different in their relationship to time and to self. While luxury is durable, fashion is ephemeral (after all, it is one of its key characteristics); and while luxury is for oneself, fashion is not. (Kapferer and Bastien, 2009)

At this point, and because of the focus of this work, it is also important to note that Premium and Luxury are two completely separated concepts. “Premium products are also of very high quality, but are lacking the magic of luxury” (Kapferer 2012: 67) Luxury is not the top product in a hierarchy of premium products, but a category on its own and so it follows different rules than those of premium brands. “Luxury is creator driven, not consumer oriented. (...) Classic marketing kills it. Premium products are more traditionally managed, and follow classic marketing principles.” And, unlike luxury, “a premium or super-premium strategy loves comparisons”. (Kapferer 2012: 67) This means that luxury is specific, and “there is no continuous movement from premium to luxury” (Kapferer and Bastien, 2009) Finally, on the contrary, Premium and Super Premium brands may borrow some key luxury attributes and use them as a basis of justifying their premium (Kapferer, 2012).

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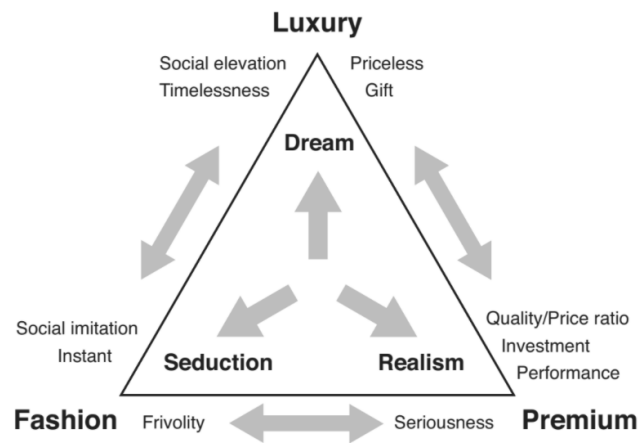


Figure 43. Model by Kapferer and Bastien (2009)

APPENDIX 5. Fashion Industry

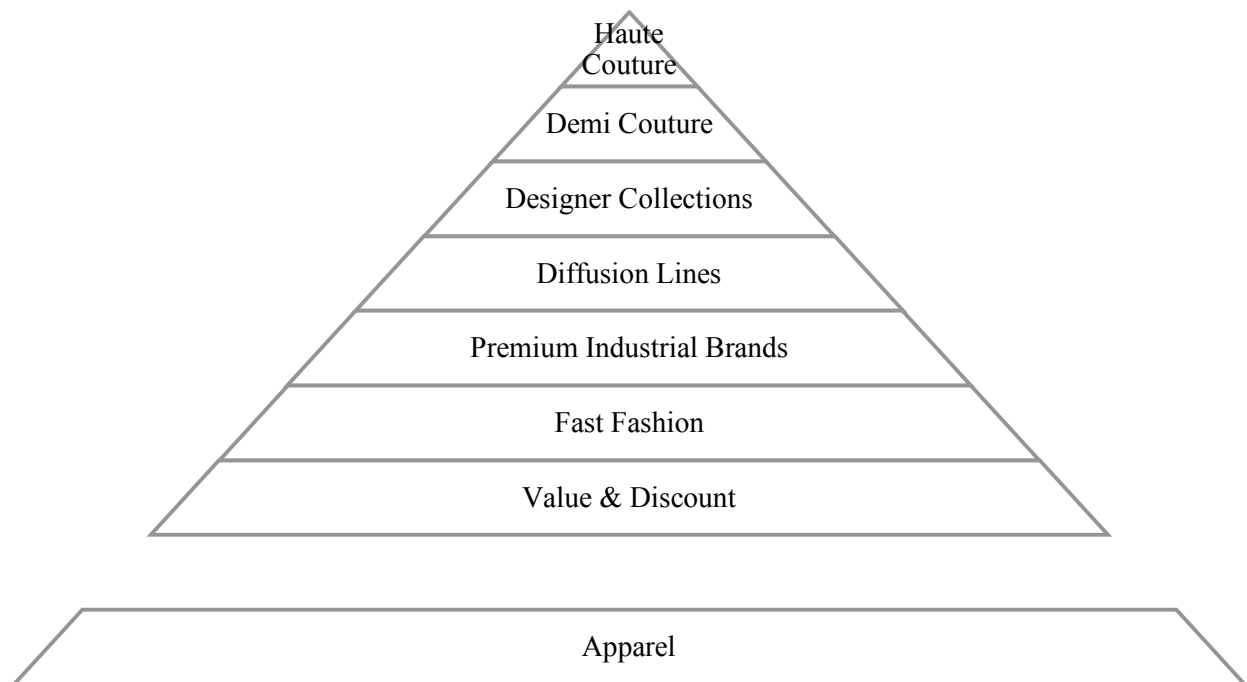


Figure 44. Fashion Pyramid (da Silva, 2016)

Note: In the bottom of the pyramid, another segment, Apparel, can be considered: however, it is important to differentiate it from the rest of the segments, because, as explained previously, it is not seasonal, because it does not have collections or annual changes of design.

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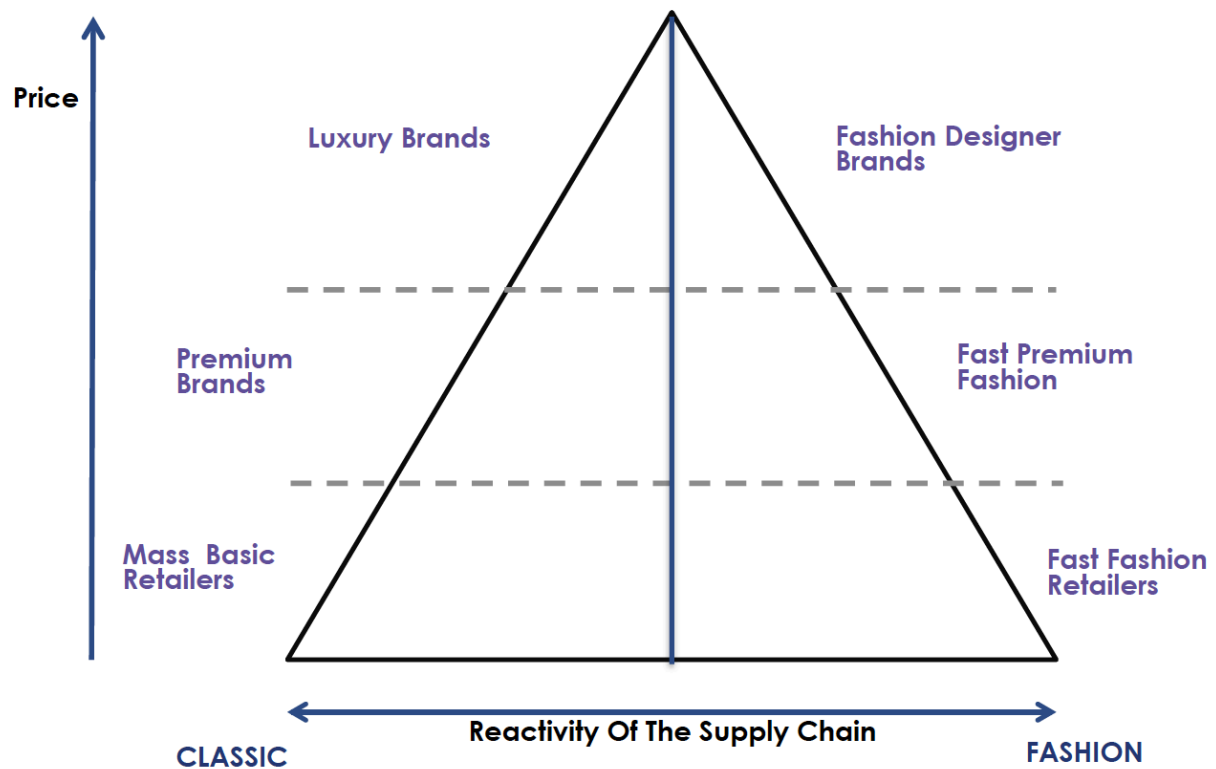


Figure 45. Fashion Business Models (Corbellini and Saviolo, 2012)

	Traditional Fashion Model	Fast Fashion
Time to Market	3/12 months	Up to 2 weeks
Number of Collections (per year)	2 main collections (SS-AW) / 6 (i.e. pre-collections, cruise)	Up to 24 (2 each month)

Figure 46. Time to market (Corbellini and Saviolo, 2012)

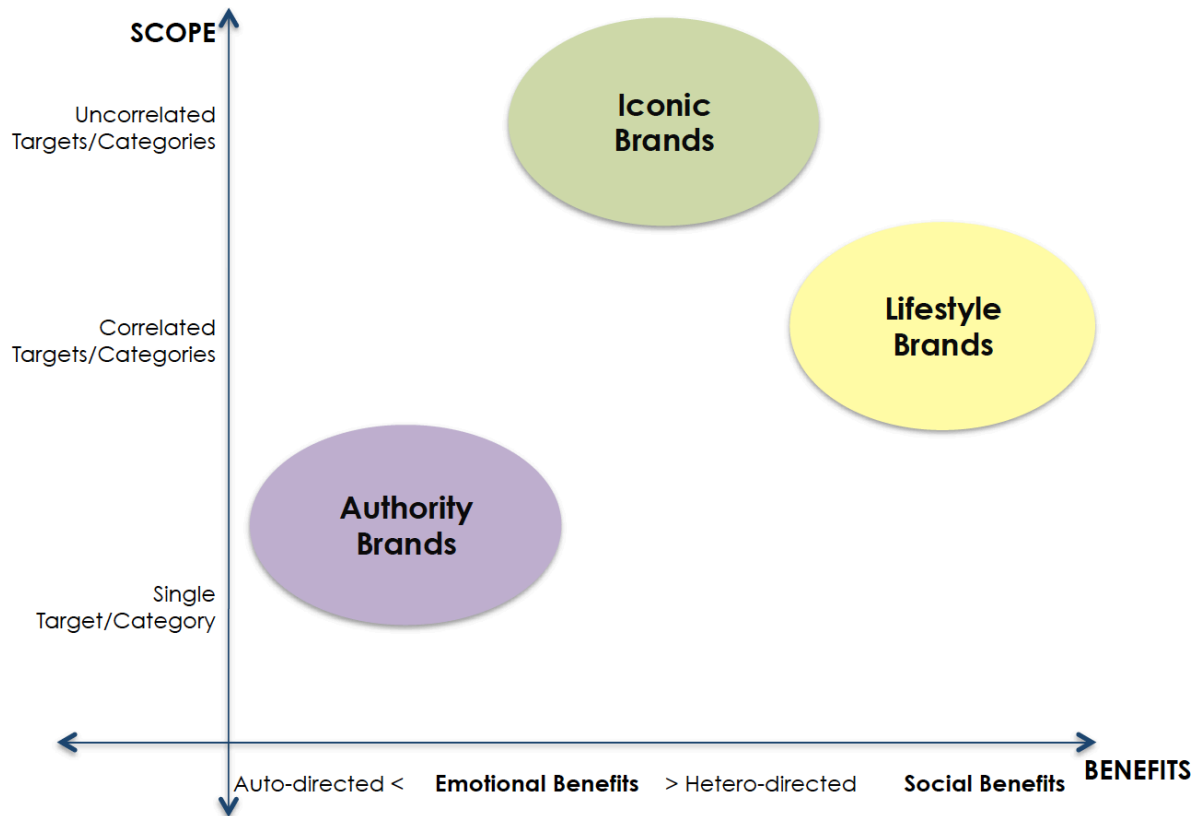


Figure 47. Classification of Luxury and Fashion brands according to product scope (depends on age, gender, price range, product range and occasions of use) and benefits (Saviolo and Marazza, 2013).

APPENDIX 6. The shrinking of the middle market illustrated

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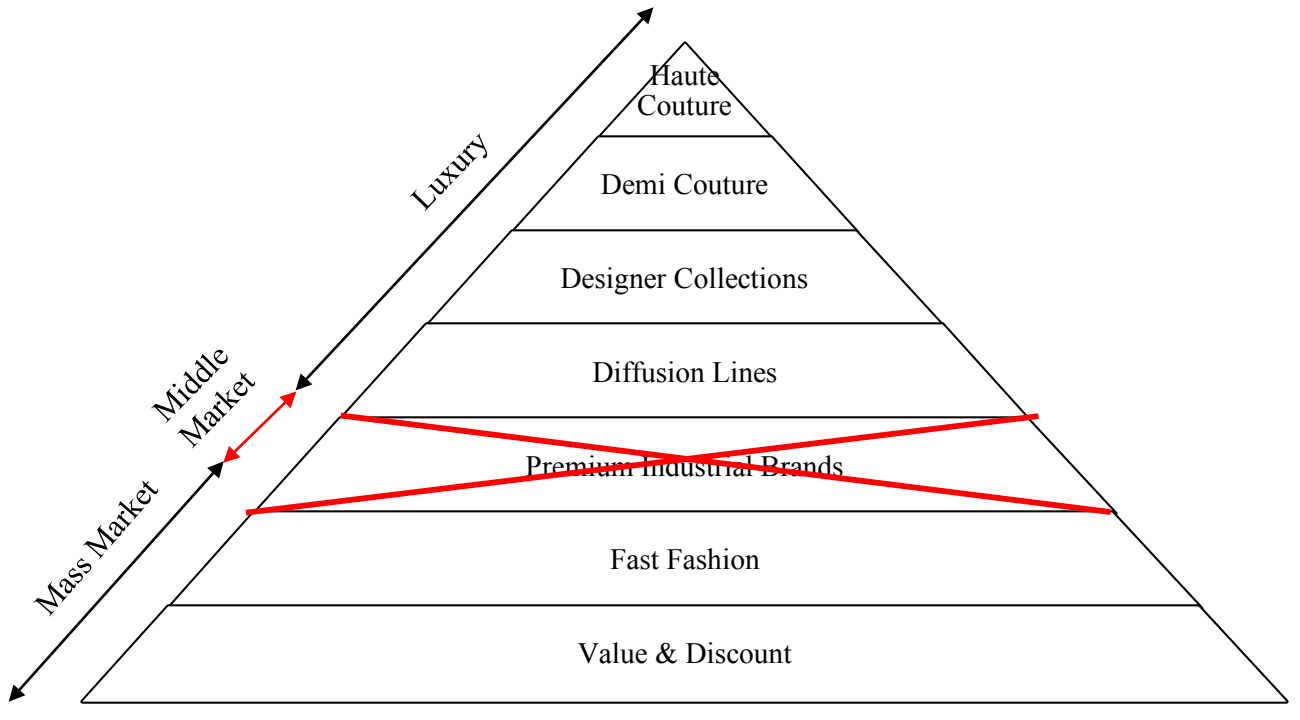
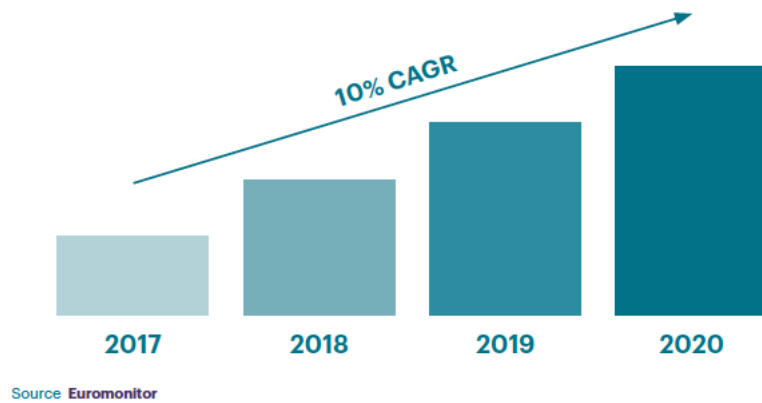


Figure 48. The Shrinking of the Middle Market illustrated (da Silveira, 2016)

APPENDIX 7. The new consumer

Growth in online sales of apparel and footwear globally 2017-2020
%



Graphic 5. Growth in online sales of apparel and footwear globally 2017-2020 (McKinsey X BOF, 2017)

How to Fight the Shrinking of the Premium Industrial Fashion Brands Category: The Case of the Brand *GUESS*?

Customer shopping habits



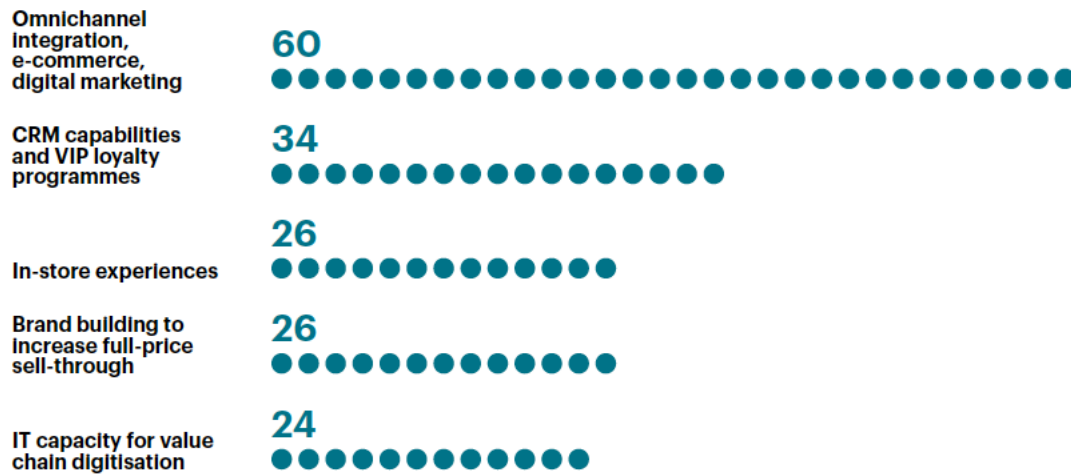
Sources Kissmetrics, Social Media Week

Graphic 6. Customer shopping habits (McKinsey X BOF, 2017)

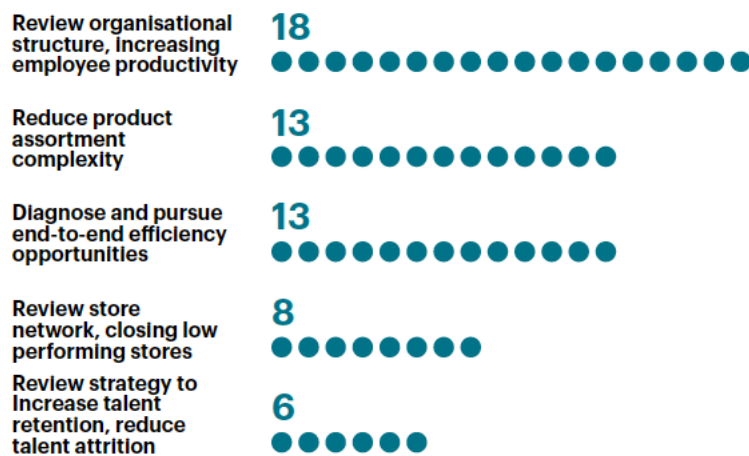
APPENDIX 8. Key success factors for industry executives

Priority areas for 2018
% of respondents

SALES GROWTH AND INVESTMENT



COST IMPROVEMENTS



Question What are the top 3 priority areas for your company in 2018?
Source BoF-McKinsey Global Fashion Survey 2017

Graphic 4. Priority areas for 2018 (McKinsey X BOF, 2017)